



The World Bank

LAO PDR ECONOMIC MONITOR



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BACKGROUND

With an estimated per capita income of US\$460 in 2005 (see Table 1), the Lao People's Democratic Republic (Lao PDR) is one of the poorest countries in East Asia. It is classified by the UN as a Least Developed Country (LDC). In 2004, 71 percent of its population lived on less than US\$2 a day, and 23 percent on less than US\$1 a day (see *East Asia Update*, World Bank, 2005). A significant decline in poverty has been achieved however during the last decade: using Lao PDR national poverty line (of approximately US\$1.5 a day) the incidence of poverty has fallen from 46 percent in 1992/93 to around 33.5 percent in 2002/03. The social indicators have been improving too, but they remain among the worst in the region, and the quality of measurements remains low.

Lao PDR has a population of around 5.6 million (Census 2005) and a land area of 236,800 square km. It has significant natural resources like forestry, minerals and hydro-electric power. Despite the recent declining of its share in GDP, agriculture remains the major sector of Lao economy contributing around 45 percent of GDP (2005) and employing nearly 80 percent of the labor force; the industry accounts for a bit more than 29% and services for nearly 26%. Landlocked, Lao PDR is in the center of the Mekong region, bordered by Thailand, Vietnam, Southern China, Cambodia and Myanmar, with the first three neighbors growing rapidly.

Lao PDR has grown strongly for more than a decade. In the 1990s, real GDP grew by an annual average rate of 6.3 percent - despite the sharp fall-off in growth during the regional crisis of 1997-1999 period. Exports grew at around 15 percent a year. Agriculture grew rapidly as did industry and services.

Transition to a market economy. The Government introduced the "New Economic Mechanism" (NEM) in 1986, to begin the transition from a centrally planned to a market-oriented economy. Gradually, price controls were removed, socialist cooperative farming abandoned as farmers were allowed to work on their plots and take ownerships, the exchange rate system was unified, government's monopoly on trade removed, the number of state-enterprises reduced, and establishment of private firms allowed. Reforms stalled during the regional crisis, as Lao struggled with serious macroeconomic problems. Successful stabilization began in 2000 and structural reforms revived in 2001.

Fighting poverty. In April, 2002, the Government of the Lao PDR finalized an Interim-Poverty Reduction Strategy. Using this and the five-year National Socio-economic Development Plan for 2001-05, the Government adopted a consultative process to prepare the National Poverty Eradication Program (NPEP). The NPEP was presented to the donors' Roundtable Meeting in September 2003, discussed by the National Assembly in October 2003, and subsequently upgraded to the National Growth and Poverty Eradication Strategy (NGPES) in early 2004. It articulates Lao's development framework for poverty reduction, specifies the targets and goals that the country values and indicates the policy reform and public expenditure programs that will be needed to achieve these goals. This November, the Government will present the new NSED (2006-2010), which will succeed the NGPES as a poverty reduction strategy.

Table 1. Lao PDR, EAP and Low Income Countries: Comparing Development Indicators

	Lao PDR	East Asia & Pacific	Low-income		
POVERTY and SOCIAL					
2005					
Population, mid-year (<i>millions</i>)	5.6	1,870	2,343		
GNI per capita (<i>Atlas method, US\$</i>)	460	1,420	510		
GNI (<i>Atlas method, US\$ billions</i>)	2.6	2,647	1,188		
Average annual growth, 1999-05					
Population (%)	2.1	0.9	1.9		
Labor force (%)	2.1	1.3	2.2		
Most recent estimate (latest year available, 1999-05)					
Poverty (% of population below national poverty line)	34		
Urban population (% of total population)	27	42	31		
Life expectancy at birth (years)	61	70	58		
Infant mortality (per 1,000 live births)	70	29	79		
Child malnutrition (% of children under 5)	40	12	43		
Access to an improved water source (% of population)	35	78	75		
Literacy (% of population age 15+)	47	91	61		
Gross primary enrollment (% of school-age population)	116	113	100		
Male	124	114	105		
Female	108	112	94		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1985	1995	2004	2005	
GDP (<i>US\$ billions</i>)	2.4	1.8	2.5	2.9	
Gross capital formation/GDP	7.0	
Exports of goods and services/GDP	4.0	23.2	24.8	27.2	
Gross domestic savings/GDP	1.3	11.9	3.4	8.0	
Gross national savings/GDP	1.3	15.2	2.9	1.5	
Current account balance/GDP	-4.1	-10.8	-14.3	-19.9	
Interest payments/GDP	0.0	0.4	2.0	3.5	
Total debt/GDP	26.1	38.3	101.2	101.2	
Total debt service/exports	12.0	3.1	17.1	20.2	
Present value of debt/GDP	54.6	51.0	
Present value of debt/exports	195.4	162.6	
	1985-95	1995-05	2004	2005	2005-09
<i>(average annual growth)</i>					
GDP	5.6	6.1	6.4	7.0	6.9
GDP per capita	3.0	3.9	4.1	5.1	4.7
Exports of goods and services	..	9.9	6.0	17.1	13.2

Development diamond*

Life expectancy

GNI per capita

Gross primary enrollment

Access to improved water source

— Lao PDR

— Low-income group

Economic ratios*

Trade

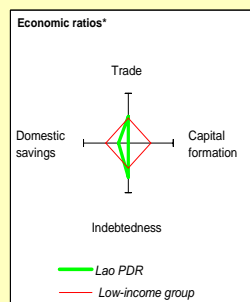
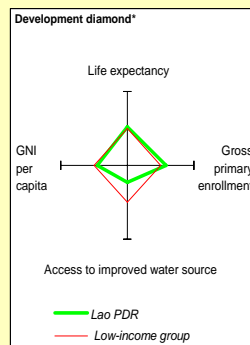
Domestic savings

Capital formation

Indebtedness

— Lao PDR

— Low-income group



Source: World Bank, World Development Indicators, 2006

ECONOMIC MONITOR – NOVEMBER 2006– Covers the last six months. The Lao Economic Monitor is issued in Lao and in English, twice a year (Spring and Autumn) by the World Bank in Lao PDR. It reports on recent economic performance (Part I), progress in the implementation of the Government's policy reform agenda (Part II), and donor activities in the relevant reform areas (Part III). This issue of the Monitor was prepared by Somneuk Davading and Ekaterina Vostroknutova. It is based on inputs from Helle Buchhave, Pablo Gallego Cuervo, Morten Larsen, Thomas Meadley, Shabih Mohib, Thomas Rose, and Jie Tang and comments from other WB colleagues. It was produced under the overall supervision of Kazi M. Matin. We are grateful to the Government and the donors for providing information and other inputs, as well as for sharing their views with the team. We would like to thank Ruangrong Thongampai for formatting and printing of the Monitor. Our thanks also go to the staff in the Bank's resident mission in Vientiane who provided support to the Monitor.

TABLE OF CONTENTS

INTRODUCTION	1
PART I – RECENT ECONOMIC DEVELOPMENTS	1
1.1 THE MACROECONOMIC SITUATION	1
1.2 ELABORATION AND IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY	3
PART II – STRUCTURAL REFORMS.....	5
2.1 PUBLIC EXPENDITURE POLICY AND MANAGEMENT	5
2.2 REFORM OF STATE-OWNED ENTERPRISES	8
2.3 FINANCIAL SECTOR REFORM	13
2.4 TRADE REFORM.....	16
2.5 PRIVATE SECTOR DEVELOPMENT.....	20
PART III – DONOR ASSISTANCE TO THE REFORM AGENDA	26
3.1 PUBLIC SECTOR GOVERNANCE	27
3.2 REFORMS OF STATE OWNED ENTERPRISES AND FINANCIAL SECTOR.....	31
3.3 TRADE REFORM.....	32
3.4 PRIVATE SECTOR, TOURISM DEVELOPMENT AND LAND REFORM.....	36

Figures

Figure 1. GDP Growth (%) and CPI (%)	2
Figure 2. Growth (%) with and without major projects	2
Figure 3. Food and Nonfood CPI (% change).....	2
Figure 4. Lao Exchange Rate	2
Figure 5. Total revenue of provincial and central SOEs in 2004	9
Figure 6. Total revenue of SOEs by group, 2004	9
Figure 7. Lao Trade and GDP	18
Figure 8. Lao Exports and Imports.....	18
Figure 9. Exports of Major Commodities	18
Figure 10. Imports of major commodities	19
Figure 11. FDI in Lao PDR	23
Figure 12. Approved FDI by sector, US\$ m	23
Figure 13. Actual FDI by sector, US\$ m.....	23

Tables

Table 1. Lao PDR, EAP and Low Income Countries: Comparing Development Indicators.....	
Table 2. Government revenues	3
Table 3. Government expenditures	6
Table 4. Expenditures in key priority sectors	6
Table 5. Number of loss-making SOEs, percent	8

Annexes

Box 1. GOL Actions to Implement the NGPES/PRS	42
Box 2. GOL Actions to Improve Public Expenditure Management	42
Box 3. GOL Actions on SOE Reform	44
Box 4. GOL Actions in the Banking Sector.....	45
Box 5. GOL Actions towards Trade Promotion.....	47
Box 6. GOL Actions to Improve Private Investment Climate.....	48

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank	MIC	Ministry of Information and Culture
AFD	Agence Française de Développement	MOFA	Ministry of Foreign Affairs
AFTA	ASEAN Free Trade Area	MOJ	Ministry of Justice
ASEAN	Association of Southeast Asian Nations	MOH	Ministry of Health
APB	Agriculture Promotion Bank	MOUR	Memoranda of Understanding
BCEL	Banque Pour Le Commerce Extérieur Lao	MPDF	Mekong Private Sector Development Facility
BOL	Bank of Lao PDR	MTEF	Medium-Term Expenditure Framework
BPKP	Bolissat Phattana Khet Phoudoi	NA	National Assembly
BPO	Business Promotion Office	NGPES	National Growth and Poverty Eradication Strategy
BTA	Bilateral Trade Agreement	NOSPA	National Organization for Studies of Politics and Administration
CEPT	Common Effective Preferential Tariff	NSEDP	National Socioeconomic Development Plan
CFAA	Country Financial Accountability Assessment	NPEP	National Poverty Eradication Program
CPAR	Country Performance Assessment Review	NPL	Non-Performing Loan
CPI	Committee for Planning and Investment	NPV	Net Present Value
CPI	Consumer Price Index	NSC	National Statistical Center
DTIS	Diagnostic Trade and Integration Study	NTB	Non-Trade Barriers
EAP	East Asia & Pacific	NTR	Normal Trade Relations
ECC	External NPL Collection Committee	PACSA	Public Administration and Civil Service Authority
EDL	Electricité du Lao	PEM	Public Expenditure Management
EIB	European Investment Bank	PEMSP	Public Expenditure Management Strengthening Program
EU	European Commission	PER	Public Expenditure Review
FDI	Foreign Direct Investment	PIP	Public Investment Plans
FINNIDA	Finland International Development Association	PM	Prime Minister
FMAC	Financial Management Adjustment Credit	PMO	Prime Minister's Office
FMCB	Financial Management Capacity Building Credit	PPIAF	Public Private Infrastructure Advisory Facility
FRP	Financial Recovery Plan	PRF	Poverty Reduction Fund
FY	Fiscal Year	PRGF	Poverty Reduction and Growth Facility
GDP	Gross Domestic Product	RMFC	Rural Micro Finance Committee
GOL	The Government of Lao PDR	SAMD	State Assets Management Department
GTZ	German Agency for Technical Cooperation	SCB	State-owned Commercial Bank
HIPC	Highly Indebted Poor Country	SIDA	Swedish International Development Association
IAS	International Accounting Standards	SME	Small and Medium Enterprise
IMF	International Monetary Fund	SNV	Netherlands Development Organization
IBA	International Banking Advisor	SOE	State-Owned Enterprise
ICA	Investment Climate Assessment	SPS	Sanitary and Phyto-Sanitary
JBIC	Japan Bank for International Cooperation	STEA	Science, Technology and Environment Agency
JICA	Japan International Cooperation Agency	TA	Technical Assistance
JSAN	Joint Staff Advisory Note	TOR	Terms of Reference
LNCCI	Lao National Chamber of Commerce and Industry	UNDP	United Nations Development Programme
LA	Lao Airlines	UNESCO	United Nations Educational, Scientific and Cultural Organization
LBF	Lao Business Forum	UNIDO	United Nations Industrial Development Organization
LDC	Least-Developed Country	VAT	Value Added Tax
LTA	Lao Tourism Authority	WASA	Water and Sanitation Authority
LTC	Lao Telecom Company	WB	World Bank
LXB	Lane Xang Bank	WHO	World Health Organization
MAF	Ministry of Agriculture and Forestry	WTO	World Trade Organization
MCTPC	Ministry of Communication, Transport, Post and Construction		
MDG	Millennium Development Goals		
MDTF	Multi-Donor Trust Fund		
MOIC	Ministry of Industry and Commerce		
MOE	Ministry of Education		
MOF	Ministry of Finance		

INTRODUCTION

Lao PDR economic performance has continued to improve during 2006. Real GDP grew at 7.0 percent in 2005 and is now expected to be slightly higher at 7.3 percent in 2006. This growth is in large part due to foreign investment inflows in mining and hydro-power and growing mineral exports, but the share of non-mining contributions has increased this year reaching 4.9 out of 7.3 percent. Agriculture, manufacturing and services sectors are expected to sustain growth, due to rising FDI in agriculture, manufacturing, and increasing trend in services (especially tourism). Inflation (of Consumer Price Index) has continued to remain in single digits: after rising early this year it has dropped remarkably during the last few months, to 5.5 percent in September and 3.7 percent in October 2006.

Implementation of reforms in various areas has continued during the period under review, even if at a somewhat uneven pace. More steps have been taken towards creating a better investment and business environment and a more open trade regime; the trade reform action matrix has been finalized, and it is expected that donor coordination in trade-related areas will take place around this program. The program of strengthening public expenditure management has sustained momentum and actions to increase transparency in the SOE sector have continued.

Implementation of the National Growth and Poverty-Eradication Strategy (NGPES) progressed further with the Government completing the final draft of the next National Socioeconomic Development Plan (NSED, 2006-10), the successor to the NGPES. The Plan was presented to donors at a Pre-Round Table Meeting in October 2006. The RTM meeting is scheduled to take place in late November.

Though ODA inflows as a share of GDP have been declining for a couple of years (mainly due to fast economic growth), there is new momentum in donor support for policy reform implementation, side by side with continued strong support for health and education sectors. Budget support is on the rise, with JBIC and EC joining the PRSO co-financing, as are initiatives for setting up multi-donor trust funds (MDTFs) in two key reform areas, adding to the technical assistance support that is already being provided. The Government is also seeking greater donor coordination and harmonization of foreign assistance through more organized joint Government-donor working groups, in support of policy reform as well as investments in health, education, infrastructure and agriculture.

PART I – RECENT ECONOMIC DEVELOPMENTS

1.1 THE MACROECONOMIC SITUATION

BACKGROUND

In the 1990s, Lao PDR grew at an annual average rate of 6.3 percent, and the incidence of poverty fell from 45 percent to 39 percent of the population in 1997-98 and to 33.5 percent in 2002-03. The crisis years of 1998 and 1999 saw inflation climb to an annual average of 110 percent and growth fall to 4 percent, but the resolution of the regional crisis and Lao's own policies stabilized the economy and resumed growth of around 6 percent.

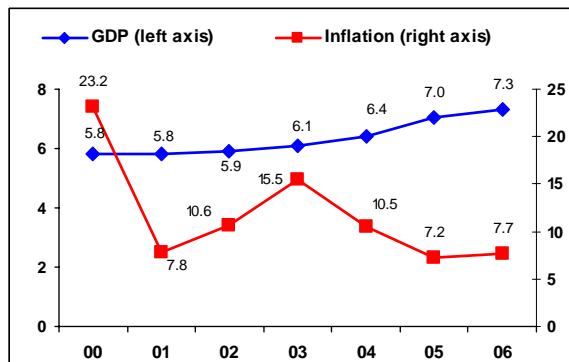
The adoption of a stabilization program since 2000 and the implementation of a phased program of reforms since 2001 – in public expenditure management, banking, state-owned enterprises, forestry, trade and private sector – has contributed to this improvement. During 2000-03, inflation has averaged 15 percent and real GDP growth averaged around 5.6 percent annually.

The approval of Nam Theun 2 hydro-power project by the World Bank Board on March 31, 2005 and by the Asian Development Bank Board on April 4, 2005 means that various financing partners have committed a total of US\$ 1,450 million to Lao PDR to finance US\$1,250 million of project cost and US\$200 million of contingency. This investment is expected to occur between now and 2009. The resulting annual inflow is very large relative to the size of the Lao PDR economy, and will have significant growth effects during that period, even though most of this will be comprised of imports.

Real GDP growth in Lao PDR rose to 7.0 percent in 2005, from 6.4 percent in 2004 (Figure 1) and is expected to increase further to about 7.3 percent in 2006. Given continued efforts in structural reform, the Lao PDR economy is projected to grow at around 7 percent a year in the near future. While this growth is driven by mining and power sectors (see Figure 2), the prospects for other sectors — agriculture, tourism, and to a lesser extent manufacturing — are also picking

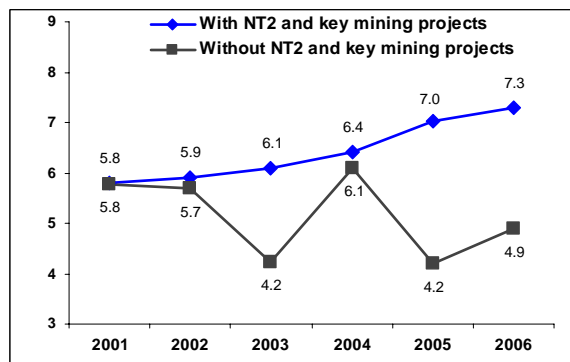
up. This is due to the earlier investments in infrastructure and rapid economic growths in the neighboring countries (China, Vietnam and Thailand) that has created growing demands for Lao products and boosted FDI in these sectors. Despite its recent decline, the contribution of agriculture to GDP remains crucial (slightly more than 45 percent in 2005). The share of industry in GDP accounts for a bit more than 29 percent and services for nearly 26 percent.

Figure 1. GDP Growth (%) and CPI (%)



Source: Lao authorities (inflation) and IMF (GDP).

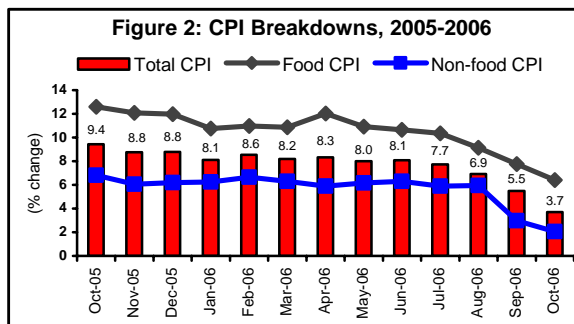
Figure 2. Growth (%) with and without major projects



Source: IMF staff estimates. Projection for 2006.

Macroeconomic conditions have remained fairly stable. Inflation has been in single digits during the last 12 months (Figure 3). After rising in late 2005 and early 2006, recently it has fallen significantly: to 5.5 percent in September and 3.7 percent in October, as food and fuel prices have started to ease. Both food and nonfood inflation, anchored by a stable Kip, continued to decline (6.4 percent for food and 2 percent for nonfood CPI in October 2006). The budget deficit has come below 3 percent of GDP this year, as the wage bill increases appear to have been compensated by lower capital spending.

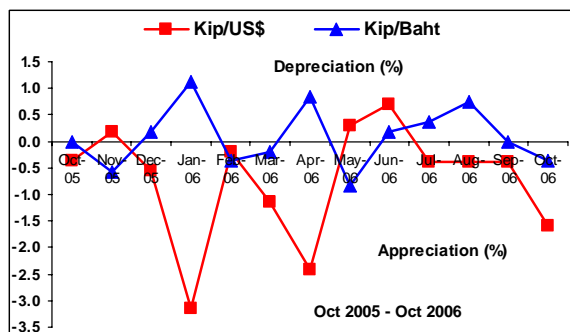
Figure 3. Food and Nonfood CPI (% change)



Source: Lao authorities (NSC) and WB staff calculations

The kip nominal effective rates have recently appreciated, and even more so in real effective terms (see Figure 4 for dollar and baht rates). Reserves increased above the mark of 3 months of imports in March, 2006, and have been pushed further by surge in mining exports, tourism receipts, and FDI inflows. The Bank of Lao PDR (BOL) continues to maintain monetary stability. However, the imports associated with large projects continue to push up the external current account deficit as percent of GDP.

Figure 4. Lao Exchange Rate



Source: Lao authorities (BOL) and WB staff calculations

High public external debt remained a concern, at about 80 percent of GDP in external public debt. However, with prudent fiscal management this and other vulnerabilities are expected to ease alongside the increases in FDI due to large projects.

Table 2. Government revenues

	2003/04	2004/05	Pre-est. 2005/06
	<i>(billions of Kip)</i>		
Revenue & Grants	3,103	3,812	4,617
Revenue	2,821	3,390	4,043
Tax Revenue	2,328	2,794	3,481
Non-tax Revenue	493	596	562
Grants	283	421	574
	<i>(percent of GDP)</i>		
Revenue & Grants	12.1	12.9	13.4
Revenue	11.0	11.4	11.8
Tax Revenue	9.1	9.4	10.1
Non-tax Revenue	1.9	2.0	1.6
Grants	1.1	1.4	1.7

Source: Lao authorities and IMF estimates

The fiscal management has been good. Tax collection in FY2005-06 has exceeded budget forecast by 2 percent, due to the new Tax law that widened the tax base and to the increased receipts from large projects and tourism. Preliminary estimates show that the overall budget deficit for FY2005/06 will be about 2.7 percent of GDP. This deficit is consistent with the government's goal of maintaining macro-fiscal stability.

1.2 ELABORATION AND IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

BACKGROUND

The Government of the Lao Peoples' Democratic Republic (GoL) aims to achieve rapid economic growth in order to improve the living conditions of its poor, graduate from its status as a least-developed country (LDC) by 2020 and meet the Millennium Development Goals (MDGs). The development strategy to achieve these goals was articulated in the National Socio-Economic Development Plan (NSED, 2001-05) and later in the National Growth and Poverty Eradication Strategy (NGPES). In November 2004 the latter was approved by IDA and IMF as the official Poverty Reduction Strategy Paper (PRSP) for Lao PDR.

The NGPES process was initially launched as a parallel to the national planning process and served as a basis for support by donors while introducing key PRSP principles to the national planning process, such as broad participation, poverty focus and result-orientation. Since 2005 efforts have been made in updating the PRSP/NGPES and integrating it into the 6th Five-Year National Socio Economic Development Plan (NSED) covering the period 2006-2010.

Completing the new NSED/PRSP. After extensive consultations on the draft NSED during past reporting periods and incorporation of comments and recommendations from local government, interest groups, private sector, donors and the Party, the Government shared the final draft of the 6th Five-Year National Socio Economic Development Plan (NSED) with the National Assembly (NA) in July 2006.

The NA approved the proposed NSED with some suggestions for changes. According to the Lao media, NA members were concerned about the implementation of the plan and proposed many suggestions for the Government to achieve the targets put forward in the NSED. The reporting on the outcome of the NA consultations has been scarce and it is not clear what changes have been proposed. Meanwhile, the final Plan is expected to provide a set of specific policies in several key areas, and prioritization and sequencing of those policies. It is also expected to strengthen the monitoring and evaluation system presented in the draft NSED and several other points addressed in the last Economic Monitor.

The final draft NSED was presented to donors at the Pre-RTM meeting on October 31, 2006. The full-fledged RTM meeting will take place on 28-29 November 2006, where the final

version of NSEDP will be shared. As described in the last Economic Monitor, the content of the NGPES is well integrated into the draft NSEDP and it incorporates some of the core principles of a successful poverty reduction strategy and process, by addressing participation, poverty focus and results-orientation.

Following the RTM, the donors will be expected to align their programs more closely with the NSEDP, the successor of the NGPES. If NSEDP becomes the new PRSP for Lao PDR, yearly updates of implementation would be reflected in the government's annual reporting to the NA. In this case, the need for separate PRSP progress reports would stop as the PRS process would be fully embedded in the national planning and development cycle.

Capacity building for linking planning and budgeting. The GoL is also working on capacity building in linking its planning and budgeting processes. Based on lessons learned in existing pilot programs across the country, the CPI will over the next three years lead the production of a simple methodology for costing and prioritizing public investment programs. The CPI plans to present the methodology in a practical manual and have it tested by planning and budgeting units in key line-ministries and selected provinces and districts. This initiative of the CPI is an attempt to further improve the alignment of expenditures with the priorities set in the NSEDP and to strengthen the capacity of budgeting and planning units at central and local level in further prioritizing pro-poor development programs. This activity is closely linked to the Public Expenditure Management Strengthening Program of the MOF. Given the shortcomings of the NSEDP in terms of providing a realistic financing requirement, CPI, MOF, and line ministries need to coordinate in order to produce prioritized and/or sequenced programs that would amount to a realistic estimate of the total financing requirement for the NSEDPs.

Good practice indicators for national plans as poverty reduction strategies. In April 2006, Lao PDR co-hosted the Regional Forum "National Plans as Poverty Reduction Strategies in East Asia" for Cambodia, Indonesia, Mongolia, Timor-Leste, Vietnam and Lao PDR, at which the GoL shared the experience of elaborating, implementing and monitoring the NGPES and the NSEDP. The Forum was organized jointly by the Government of Lao PDR, the World Bank, the International Monetary Fund, the Asian Development Bank and the United Nations Development Program. Its objective was to share experience and discuss how to integrate poverty reduction principles into domestic policy-making processes to help increase their effectiveness and reduce transaction costs.

As a direct follow-up to the recommendations made at the Forum the GoL has produced a set of indicators which constitutes a checklist for the continued strengthened development, implementation, monitoring and evaluation of the NSEDP – five-yearly and annual - as a poverty reduction strategy. With the integration of the indicators into the monitoring system for the NSEDP it will assist in measuring progress in strengthening the integration of the critical PRS principles of transparency and participation, poverty-focus and results-orientation of domestic policy processes in a systematic manner over time.

The next steps in the PRSP process are:

- Ninth Round Table Meeting on 28-29 November 2006, which will include a presentation of the final NSEDP, report on budget execution for FY 2005-06, and present the estimated budget for FY 2006-07. The meeting will also address strengthened governance measures planned for the implementation of the NSEDP and measures to promote private sector and trade development.
- After the official dissemination of the 6th NSEDP and transmission of the NSEDP to the Bank as the proposed new PRSP for Lao PDR, the Bank and Fund staffs will prepare an advisory note (the Joint Staff Advisory Note—JSAN) to provide feedback to the GoL and to the Executive Boards of the World Bank and the International Monetary Fund on priority areas for strengthening the PRS during implementation over the coming years.
- Finalizing the checklist of PRS indicators and integrating them into a strengthened monitoring and evaluation system for the implementation of the NSEDP.

(For the PRS measures taken in previous years please refer to the Annex–Box 1)

PART II – STRUCTURAL REFORMS

The government has been making significant progress with improving the overall public finance management framework. The implementation of the Government's multi-year Public Expenditure Management Strengthening Program (PEMSP) gained considerable momentum, and one of the outcomes of previous reforms was a significant increase in revenue collection. Progress with State-Owned Enterprise (SOE) restructuring has been on track, with a caveat: while the monitoring on SOEs and their restructuring plans has improved, the disagreements between MOF and EDL delayed implementation the Energy Sector Action Plan with respect to settling electricity arrears. Restructuring of the state-owned commercial banks (SCBs) has lagged largely behind other reforms; however, the revised Governance Agreements have been finalized and approved. There was considerable support for revising the financial sector legislation and in drafting a Financial Institutions law that would level the playing-field for state-owned and private banks. On the private sector and trade side, steps were taken to facilitate trade and a Prime Minister Order has been issued to implement Enterprise Law that is aimed at significant liberalization of registration of private enterprises. Implementation of this law is expected to improve the investment climate.

2.1 PUBLIC EXPENDITURE POLICY AND MANAGEMENT

BACKGROUND

Since 2001, the government of Lao PDR revived its public expenditure reform, by reassessing its expenditure policies and its public expenditure management processes. The PER, the CFAA and the CPAR were completed in 2002 & 2003 which raised issues and spurred actions, albeit slowly. These actions have made the legal framework for procurement a sound one, and other actions have improved transparency and accountability even if there is still a long way to go.

Public expenditure policy has also been improving, though in the past, with stagnating share of revenues in GDP and accumulation of arrears, the spending choices remain constrained. After several years of reform in the public financial system, this year the budget revenues exceeded the target. Notwithstanding the low revenues, there have been increases in total expenditure on education and health in recent years and further efforts are underway to meet the country's poverty reduction objectives. Phased payment of arrears, better balance between recurrent and capital expenditure and more efficient social sector spending remain important. Thus, more effective, accountable and transparent public expenditure management processes and improved public expenditure policies will be key in all future efforts of the Government of Lao PDR.

Building on the actions taken earlier by the Government as well as the technical assistance and advice provided by the World Bank, the IMF, the ADB, the UNDP and bilateral donors the Government adopted a comprehensive, medium-term Public Expenditure Management Strengthening Program (PEMSP) in early 2005. This Program focuses on the strengthening of management systems and the capacity of the Ministry of Finance and Provincial Finance Departments, through reform measures implemented annually – all of which are fully consistent with the Government's Policy Paper on Governance and the National Growth and Poverty Eradication Strategy. This year, a new PEMSP program document has been issued and the Government has embarked on active implementation soliciting donor support.

Total expenditures have been relatively flat at an average of 16.4 percent of GDP over the last three years. On recurrent expenditures, wages and salaries have been rising in part due to increases in wage-rates from very low levels. However, as a percentage of the total budget, expenditures on wages and salaries have been relatively constant. Expenditures on the four priority sectors (health, education, agriculture, and transportation) represent slightly less than half of total spending. Table 3 and Table 4 show expenditure trends over the last three fiscal years.

During the last several years, the government has been making significant progress with improving the overall public finance management framework. These improvements have already resulted in outcomes: in FY2005-06, for the first time in recent history, tax collection has exceeded budget forecast by 2 percent. Even though this eased fiscal pressures and risks, the government maintained prudent cash management system for budget execution. Preliminary estimates show that the overall budget deficit for FY2005/06 will be about 2.7 percent of GDP. This deficit is consistent with the governments goal of maintain macro-fiscal stability.

Table 3. Government expenditures				Table 4. Expenditures in key priority sectors			
		est.	pre-est.				est.
	2003/04	2004/05	2005/06		2002/03	2003/04	2004/05
	(billions of Kip)				(% of total spending)		
Total expenditures	3,967	4781	5529	Total (four sectors)	49.6	42.4	45.3
Current Expenditure	1,890	2361	3175	Agriculture	11.5	6.9	5.9
O.W. Wages & Salaries	1076	1038	1344	Infrastructure (MCTPC)	22.3	20.2	21.7
Capital Expenditures and onlending	1,853	1818	2099	Education	9.9	11.0	11.7
O.W. Domestically-Financed	799	446	515	Health	5.8	4.3	6.0
Debt repayment/Contingency	224	602	255		(% of GDP)		
	(percent of total budget)			Total (four sectors)	10.1	6.9	8.6
Total expenditures	100.0	100.0	100.0	Agriculture	2.4	1.1	1.1
Current Expenditure	47.6	49.4	57.4	Infrastructure (MCTPC)	4.6	3.3	4.1
O.W. Wages & Salaries	27.1	21.7	24.3	Education	2.0	1.8	2.2
Capital Expenditures and onlending	46.7	38.0	38.0	Health	1.2	0.7	1.1
O.W. Domestically-Financed	20.1	9.3	9.3				
Debt repayment/Contingency	5.6	12.6	4.6				
	(percent of GDP)						
Total expenditures	15.5	16.1	16.1				
Current Expenditure	7.4	8.0	9.2				
O.W. Wages & Salaries	4.2	3.5	3.9				
Capital Expenditures and onlending	7.3	6.1	6.1				
O.W. Domestically-Financed	3.1	1.5	1.5				
Debt repayment/Contingency	0.9	2.0	0.7				

Source: Lao authorities and IMF estimates and projections

Sources: Lao authorities (MoF). Preliminary estimate for FY 2004/05

Like in other transition economies, Lao PDR's public financial system suffers from a disconnect between budget planning and actual spending. Over ambitious revenue projections forced the MOF to maintain strict cash management of the actual budget allocations in an ad-hoc manner and thus without adequate consideration to budget appropriations. Strict cash management has allowed the government to bring the overall budget deficit at levels required to maintain macroeconomic stability. In this light it is very encouraging to see that in FY2005/06 revenue collection has exceeded the budget projection. It is hoped that the government continues to maintain this very important achievement, as effective revenue projection is necessary for a coherent execution of the expenditure policy.

The progress with PEMSP implementation has remained broadly on track for the last six month period. The PEMSP implementation committee conducted three national workshops with all government stakeholders involved in PEMSP implementation. The purpose of the workshop was to take stock of PEMSP implementation, discuss challenges faced, and to develop plans for program implementation for the next year. The inputs from the workshops fed into the updated PEMSP Program Document that was circulated by the PEMSP secretariat to donors in September 2006. Furthermore, the PEMSP secretariat prepared the first quarterly newsletter on PEMSP implementation in September 2006. Some of the PEMSP interventions over the last six months were: (i) commencement of an English language training program for MoF staff; (ii) plans for stabilizing the Government Financial Information System were finalized and now procurement of goods is on-going; and (iii) the Government drafted a revised Budget Law which aims to address some key weaknesses in the central-local relations – this law is expected to be promulgated before end of 2006. Over the medium term the government shall include two additional areas into the PEMSP – strengthening debt management and revenue – administration and policy.

Over the last six months, the government has conducted consultations with provinces and ministries on improving central-local relations framework. The consultations have focused on how best to structure the Treasury and revenue administration – tax and customs – for improving service delivery and raising the revenue effort. The issue has been that decentralized revenue administration is resulting in lower than potential revenue collection. At the same time decentralized treasuries mean that: (i) it is not possible to uniformly implement national priority programs; (ii) there is no uniform cash management/execution system that can inform policy makers of the consolidated cash position of government on a given day; and (iii) it is not possible to determine how much sectoral spending the government is making.

These consultations have informed the revision of the Budget Law, which is expected to be approved by the National Assembly in the November session. A key element of the revised Law is the possible centralization of Treasury, tax and customs administration. Effective implementation of the provisions in this Law will improve revenue collection and significantly strengthen expenditure policy execution. Over the next six months (and beyond) the key challenges for government will be to garner adequate human resources and finances to implement some of the reforms envisaged by the Budget Law.

The government has also made progress with decompressing the budget preparation and approval cycle. In previous years, the National Assembly used to approve an aggregate budget envelope in September, without an approval by ministry or provinces. Starting June, 2006, the National Assembly has approved the overall budget ceilings for ministries and provinces. The Ministry of Finance is now working with other ministries /departments and provinces to disaggregate the overall ceilings into line item allocations. It is expected that this exercise will be completed by November 2006. This is significantly positive development in the budget planning process and will help service delivery units plan their budget better.

The government is taking measure aimed at improving budget recording and reporting. The Government Financial Information System (GFIS) was rolled out to all ministries and provinces. At this time the government is in the process of consolidating the roll-out by stabilizing the GFIS information and communication technology. The roll-out of GFIS has been an important step in introducing a computing environment to the budget recording process and will help further business process reengineering and eventual introduction of an integrated financial management information system.

The work to design of a revised chart of accounts stagnated since last year. The new chart of accounts is intended to ensure that a more transparent and comprehensive accounting structure be developed, consistent with the IMF "Government Financial Statistics" standards and cash-based International Public Sector Accounting Standards (IPSAS). The revised chart of accounts, well aligned budget nomenclature, and functional classification of the budget is critical for implementation reforms aimed at improving budget planning, execution and reporting. This is needed for: (i) the medium term expenditure framework development; (ii) formulating Budget Norms; and (iii) ensuring that public finances are delivered to government's priority programs effectively.

The Government completed the civil service census in May 2006, and Public Administration and Civil Service Authority (PACSA) prepared a report to the Government based on the key results. This census will provide information on the structure and deployment of the civil servants, which will form the basis of a medium term civil service reform strategy. PACSA has also started deployment of a personnel database system which will be an important management tool for strategic management of civil servants.

(For the PEM reform measures taken in previous years please refer to the Annex–Box 2)

2.2 REFORM OF STATE-OWNED ENTERPRISES

BACKGROUND

The objective of the government's SOE reforms is to enhance transparency, reduce waste and increase efficiency in order to promote their commercial viability and reduce their burden on the budget and the SOCBs. Reforms implemented in the early 1990s reduced the SOE sector by closing down, leasing, merging and selling a large number of SOEs. The SOEs today are not only fewer in number, but more importantly, play a significantly smaller role in Lao's economy in terms of share in GDP and in share in total employment. Nevertheless, several large SOEs had generated a large share of the non-performing loans (NPLs) in the state-owned banking system in the second half of 1990s, which risked the stability of the banking sector and have to be ultimately funded by Government revenue.

The Government's SOE reform program, the current round initiated in 2001, had three objectives: (a) improving transparency and governance of state enterprise sector (b) restructuring the larger SOEs whose losses and accumulated debt to banks were undermining both the budget and the financial sector, and (c) rationalizing the regulatory and pricing environment for infrastructure SOEs through tariff policy reform.

Progress over the last four years has been uneven, but the Government has been successful in reining in the SOEs and in reducing the non-performing loans (NPLs) arising from the SOE sector – in fact a much larger share of NPLs over the last 3 years is due to the private sector not the SOEs. There was progress for 4 large SOEs as well as EdL, especially in 2003 and early 2004, was not only in preparing detailed time-bound restructuring plans, and developing consensus on actions, but also in Government taking many of the proposed actions to restructure (e.g. selling non-core assets, reducing employment, adjusting tariffs, restructuring old debt, setting up committees to continue the process and to do international standard audits) Even for all other SOEs, the Government carried out annual assessment of their financial performance and for chronic loss-maker, put them on a restructuring list. Nevertheless, the pace of progress during 2005 remained slow and uneven. And many SOEs are still able to take actions, on occasions, that are not consistent with the objective of commercial viability.

In 2006, the State Assets Management Department (MOF) finalized an assessment of SOEs for 2004. According to this assessment performance of Lao PDR SOEs improved in comparison to the previous year: revenues increased between 2003 and 2004 by 20% in nominal terms, and total results more than doubled, up to 725.3 billion kip (approximately \$70 million). Total number of loss-making companies decreased from 42 to 34, accounting for 28.8% of total companies in 2003 and 22.8% in 2004 (see Table 5). SOEs reporting to the central ministries represent the largest companies in terms of revenue and turn-over (see Figure 5)¹

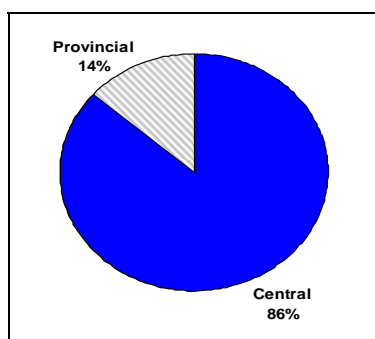
Table 5. Number of loss-making SOEs, percent

	2003	2004
Loss-making SOEs	42	34
<i>Central</i>	10	7
<i>Provincial</i>	32	27
Total number of SOEs	146	149
<i>Central</i>	48	50
<i>Provincial</i>	98	99

Source: State Assets Management Department, MoF

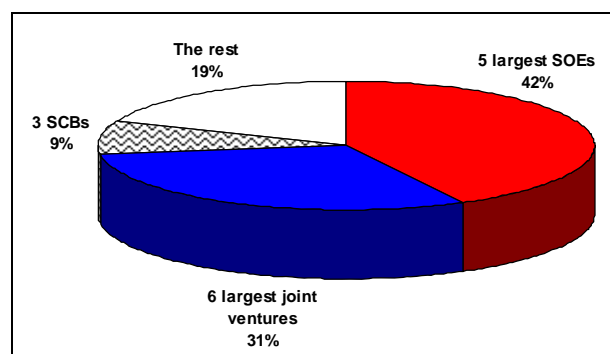
¹ These figures are calculated according to the local accounting standards. International audits of the 4 SOEs of Phase-I show different figures by company; however these audits do not allow for analysis of the SOEs sectors as a whole.

Figure 5. Total revenue of provincial and central SOEs in 2004



Source: State Assets Management Department, MoF.

Figure 6. Total revenue of SOEs by group, 2004



Source: State Assets Management Department, MoF.

In 2004, the revenue of the eleven largest state owned companies (including joint ventures and excluding banks) reporting to central line ministries, accounted for more than 70 percent of all SOEs revenues. Among these, revenues of five SOEs fully owned by GOL² accounted for about 42 percent, revenues of six joint venture SOEs³ for around 31 percent, revenues of others (more than 120 SOEs) comprised less than 30 percent (see Figure 6).

Below is the recent reform progress made in 2006 on those SOEs under the restructuring programs:

Ongoing Restructuring of 4 large SOEs (Phase-1). Draft independent external audits of financial accounts for FY04 for the four Phase 1 SOEs: Lao Airlines (LA), Nam Papa Lao (NPNL), Pharmaceutical Factory 3 (PH3), and Bolisat Pattana Khet Poudoi (BPKP) have been completed. The main recommendation of the audits was to improve the accounting systems, and for BPKP to liquidate non-core assets, i.e. to go through financial restructuring. Other actions that are envisioned to improve accounts of SOEs are reduction of operating costs and more efficient use of working capital.

Development of Restructuring Plans for another 5 SOEs (Phase-2). These include the DAFI Group, the Agriculture Industry Development Import-Export State Enterprise, the Lao State Fuel Company, the Société Lao Import-Export, and the Road Bridge Construction Company No. 13. A TA from JBIC has been completed and produced final reports. The BPO is taking these into account when updating the current restructuring plans for these SOEs. These SOEs will also be audited by an independent international auditor for FY05.

Restructuring of another 4 SOEs (Phase-3). The following SOEs comprise this phase: Lane Xang Phatthana (LXP), Lat Visahakit Sanong Vatthou Technique (LVSVT), Lat Visahakit Konchak Kasikam (LVKK) and Borisath Phalithaphanh Beton Lao (BPBL). The Restructuring Unit in the Business Promotion Office (BPO) has been appointed to oversee the preparation of restructuring plans.

The monitoring of the SOEs has recently improved: PMO has started a regular monitoring of the progress of the ongoing restructuring plans. Now, BPO carries out quarterly monitoring and evaluation and submits to PMO a semi-annual evaluation of progress against approved restructuring plans for SOEs. In particular, semi-annual meetings will take place, where results of audits and other evaluations will be discussed with SOEs and ministries, and a report will be issued and signed by the PM. Separate meetings will take place quarterly with each of the SOEs to discuss the actions that need to be taken. The restructuring plans will be updated according to the results of these discussions and BPO will make sure that these restructuring plans stay on track. The first semi-annual meeting took place on June 12, and the report has been already signed by the PMO. The next meeting is planned in December, 2006.

² These include: Electricite Du Laos (EDL), Enterprise of Telecommunications Lao (ETL), Lao Airlines, Lao State Fuel Company and Capital Water Supply State Enterprise.

³ These include: Lao Telecommunication Enterprise, Lao Brewery Co. Ltd, Lao Soft. Drink Co. Ltd, Lao Insurance Co. Ltd, Lao Tobacco Co. Ltd and Lane Xang Hotel Enterprise.

During this and next fiscal years, the Government is planning to draft a Strategic Plan on SOE reform, following the 8th Party Congress Resolution. Some work has already started – for example, the new Enterprise Law includes a section in SOEs that prescribes them to be converted to limited liability companies. The Prime Minister Order on Enterprise Law implementation also prescribes actions for transforming SOEs into limited liability companies. The Strategic Plan will be drafted in a participatory way, with a wide dissemination in provinces and different sectors of economy.

Tariff Policies for Infrastructure SOEs

BACKGROUND

The Government, cognizant of the need to reduce budgetary subsidies to these services and to tap into the private financing of investments, have been moving to more appropriate tariffs and prices for such services.

Most of infrastructure and services in Lao PDR -- electricity, water, and domestic air travel -- are provided by SOEs, though in telecommunications private providers have been delivering these services. There are many challenges to the financial sustainability of electricity and water utilities in Lao PDR. Tariffs have generally lagged behind inflation and remained below full cost-recovery levels, despite significant recent adjustments. Low and complex tariff structures have resulted in inefficient energy and water usage, and have reduced the resources available for further investment in these sectors. Major arrears have built up to the utilities, including arrears from the government budget. Against this, the utilities themselves have fallen behind on servicing of their debts to Government.

There has been a good deal of Government action in this respect over the last three years. These actions relate to: (1) actual changes in tariffs and in tariff structures, and (2) announcement of guiding principles for setting of tariffs and for changes in those tariffs. In particular, tariffs were raised towards greater cost-recovery and policies and principles were announced that would guide future tariffs and tariff changes on water, telecommunications, power and airfares, through Prime Minister's Notices. However, the implementation of these guiding principles in arrears settlement has been slow on the uptake.

Water Tariffs

Background

In the second half of 2004, WASA conducted a comprehensive tariff review of 16 of the 17 NPSEs. This review set out to make recommendations for tariffs for the period 2005-2007 inclusive that set the NPSEs on the path to full cost recovery (WASA Annual Report 2004).

The Government promulgated the Decree on Regulation of Urban Water Supply Operations in July 2005.

Since the last issue of Economic Monitor, WASA's tariff reviews for 2005-2007 were accepted and implemented by 10 of the 17 Nam Papa State-Owned Enterprises (NPSEs in Bokeo, Bolikhamxay, Champasak, Huaphanh, Luang Phabang, Oudomxay, Savannakhet, Sekong, Vientiane Province, and Xieng Khouang; two NPSEs (Luang Namtha and NPNL) are currently reviewing the tariff proposals; the remaining five NPSEs require service and water supply system improvements before tariff reviews can take place. The Water Supply Authority Lao PDR's Annual Progress Report 2005 is still under preparation; report expected in November 2006. The report will include a comparison of actual performance against expectations as set out in the tariff review.

Further details will be included with the publication of the 2005 Annual Report. Under the current Northern and Central Region Water Supply and Sanitation Sector Project (supported through ADB Grant No. 0016-LAO, the OPEC Fund for Development Loan No 1070P, and NORAD Grant No. LAO-05/001), a further review will take place for the period 2008-2010.

The first 2 official private sector water supply concessions were put into operation in April 2006 in Feuang District Town and Houay Mo-Thaheua (four villages), Vang Vieng District (both in Vientiane Province). The process of developing these private water supply operations has been undertaken by the Water Supply Authority, DHUP, MCTPC, with support by GRET (a French INGO). GRET now has GOL authorization to develop with WASA this private sector water supply concessions model in six new sites in two provinces.

In 1994, only five urban centers had a water supply service. This has now increased to 53 urban centers (2006) with a piped water supply network, and 11 more urban centers have agreed funding in place. However, there are still 77 mainly small poor towns with no water supply services.

MCTPC is also planning to submit the Water Supply Law to the National Assembly. The Water Supply Law is intended to consolidate water supply legislation currently scattered across 134 pieces of separate legislation for water supply and 45 pieces of legislation for sanitation. It intends to clarify the regulatory environment for water supply; to enable greater private sector participation in and stronger community management of water supply; to clarify responsibility and to establish the right of access to basic water supply, sanitation and wastewater services; ensure that future supporting legislation reflects customary tribal and ethnic law through extensive field research nationally; and strengthen the legal basis for the provision of sanitation services. The inclusion of sanitation within the Water Supply Law will facilitate future implementation decrees assigning responsibility for sanitation nationally to a single government agency. The law is scheduled for submission to the National Assembly in March, 2007.

Electricity Tariffs

Background

Electricité du Lao (EdL) was particularly hard hit by the financial crisis and ensuing inflation of the late 1990's because of a currency mismatch: its revenues are largely in kip while the costs of debt servicing are mainly in US Dollars. A financial recovery plan was implemented during the subsequent years; the main features of this plan included conversion of government debt to equity and annual tariff adjustments of 25-50%. Consequently, EdL is now on a reasonably good footing and has been able to pay annual dividends to government in the order of 3-5 million US dollars since 2003.

Since 2003 EdL has been earning a profit. Profits from its export operations cover the losses it incurs on its domestic market. The average domestic tariff rate is about 10% below the rate required for full cost recovery. Residential and agricultural consumers are cross-subsidized by others.

On November 22, 2005, MIH, MOF and EDL signed the Action Plan for Financial Sustainability of Power Sector (Financial Action Plan). This plan is intended to address the major issues impeding EDL's financial sustainability, namely the need to increase tariffs to cost-recovery levels; and the need to eliminate the stock and avoid future additions to Government's payment arrears to EDL. The plan includes four main components:

- tariff adjustment, with tariffs being restructured and increased by an average of 1 percent per year in real terms until 2011 when cross-subsidy among customer categories should be minimized and full cost recovery achieved (based on the EDL tariff study – *Electrowatt*, 2004);
- settlement of accumulated arrears from Government to EDL, along with agreement on a settlement schedule over approximately three years, to be financed through EDL's debt service payments to Government which should go up effective January 2006 upon the expiry of a one time concession extended through the previous financial recovery plan of EDL.
- timely payment of future government electricity consumption from October 1, 2006 to be ensured by adequate budget allocation based on a review of government offices' electricity consumption pattern, and application of "use it or lose it" discipline on budget use; and
- operational efficiency improvement by EDL, with overall system losses reduced from about 20 percent in 2004 to around 13 percent in 2011.

Government has made progress in the implementation of the Financial Action Plan. A tariff adjustment across consumer categories averaging 5.5 percent was implemented on August 1, 2005. Subsequent tariff increase for reducing cross-subsidies and recovering cost on January 1, 2006 and adjustment for local inflation and exchange rate fluctuation on April 1, 2006 have resulted in a combined upward adjustment of about 1.8%, thus bringing the average consumer tariff to 552 kip/kWh.

In August 2005 MOF approved a phased program of settlement of arrears due from the central Government departments and agencies to EDL in the amount of 38 billion kip. However, agreement has yet to be reached on total amount of Government arrears as of September 30, 2006. These arrears are estimated to be some 160 billion kip, taking into account of the cash payments and off setting against EdL's debt service payments to Government approved by MOF, in the total amount of about 37.8 billion kip. The Government is thus lagging behind the deadlines indicated in the Action Plan, with respect to arrears settlement and payment, and is currently

risking accumulation of future arrears that will potentially undermine financial sustainability of EDL in the coming years.

Telecommunication Tariffs

Background

The current capacity of the telecommunications sector in Lao PDR is relatively small - estimated to be 90,000 fixed lines and 141,000 cellular lines – two-thirds of this capacity is in Vientiane. Transmission to Northern provinces is limited by mountainous geography. There are four authorized enterprises to provide fixed and mobile telecommunications in Lao PDR, with all four providing mobile phones but only three providing fixed lines. All of them have some government ownership. The enterprises are as follows: Lao Telecommunications Co Ltd (LTC, shareholding is GOL 51%, Shinawatra 49%); Enterprise des Telecommunications Lao (ETL, GOL 100%); Lao Asia Telecom (LAT, Ministry of Defense 100%); Millicom International Cellular SA (MLL, GOL 22%, Millicom 78%). The first three of them provide fixed line, mobile and other services, while the last one – only mobile and other services.

The entry of Millicom, the large shareholding by Shin Corp, the operations of PlaNet and the prevalence of Voice over Internet Protocol (VoIP) operators show that private investors are willing to invest in Lao PDR under the current policy regime. However, such investment is still primarily limited to activities in Vientiane and there is need to take stock of the situation with respect to tariffs and other policies.

The tariffs were revised upwards in early 2004 whereby fixed line rentals and local fixed line call rates were both increased, even as international fixed-line calling rates were lowered. The mobile rates reflect cost-recovery and thus are at competitive levels.

Recently, GOL has made progress towards reducing the costs for providing telecommunication services by moving from the satellite-based services to an optic cable system connected with various provinces inside the country and with its neighboring countries: Thailand, Vietnam and China. The recent application and establishment of the optic cable network has contributed to reduction of costs. Sharp decreases in the fees for both local and international calls were noticed in recent months as a result of that. Especially, the fee for international calls has been reduced from \$1.5-\$2 per min a few years ago to 50 cents in 2005 and less than 20 cent per min in 2006.

Overall, the Lao telecommunication sector has been growing fast. Ten years ago, the sector was dominated mainly by one player (Lao Telecom Company or LTC). Now, there are five companies (state-owned, joint-venture and private) that provide telecommunications services in Lao PDR. A Thai Sky Telecomm Company entry in 2006 – it is the most recent addition to the sector. The number of internet service providers (ISP) has increased from two firms in 1990s, to about six players in early 2000 and now about ten ISPs, such as STEA, ETL Internet, Lao Telecom, Champalao Internet, Lanexang Internet, Sky Telecom, KPL, Unicom and MLL.com (the last two are developed and will go into operations soon).

At the same time, the number of users, especially wireless phones has gone up very rapidly. In 2004, there were about 427 thousands phone subscribers in total (337 thousands for the mobile phone). In 2005 the number rose to 759 thousands or more than double (657 thousands for the wireless) and then went over one million by September 2006 (900 thousands for the mobile phone). The number of fixed line subscribers was stable at around 90 thousands during the last few years. In addition, a new type of fixed phone services – wireless local loop (WLL) or wireless fixed phone services⁴ were introduced in Lao PDR recently by LTC with about 10 thousands users in 2005 and 20 thousands by September 2006. Sky Telecom is the second firm that will provide WLL services soon.

(For the SOE reform measures taken in previous years please refer to the Annex–Box 3)

⁴ Wireless local loop services (wireless fixed phone) is a new type of fixed phones in Laos. The convenience of WLL phones is that it can be carried around within 25 KM from the residence of WLL phone users.

2.3 FINANCIAL SECTOR REFORM

BACKGROUND

The Lao banking sector today plays a very small role as compared to banking systems in more developed economies. The sector is dominated by State Owned Banks (SCBs) which only now are starting to become market oriented. Private domestic banks play a small role and foreign banks have made little impact in the context of market share. The small size of the private sector and foreign banks is attributed in large part to the role of the Government in many segments of the economy (directly or indirectly). Banque pour le Commerce Extérieur Lao (BCEL) retains a dominant position, accounting for approximately half of total deposits and loans in the system. The Lao Development Bank (LDB), resulting from the merger of two smaller SCBs - Lao May Bank and Lane Xang Bank - is smaller. Low levels of capital, significant levels of non-performing loans (NPLs) and the accompanying weak profitability are found at the large state owned commercial banks. The state-owned policy bank, the Agricultural Promotion Bank (APB) which lends mainly to rural areas, suffers from the same symptoms.

The Government of Lao PDR has implemented several rounds of bank restructuring for its SCBs. After the breakup of its mono-bank system in 1988, SCBs had to be recapitalized. In 1994, the authorities injected Kip 18 billion (approximately \$26 million), of which 4 billion kip was in cash and 14 billion kip was in the form of treasury bonds, to clean up the balance sheets of the SCBs through without operational restructuring. Bad loans, however, continued especially from loans to state owned enterprises (SOEs) and policy lending. In 1998, seven SCBs were merged into three, but high inflation, devaluation of the currency, and overly ambitious public investment projects, made operational improvements difficult.

Although improving, SCBs continue to be susceptible to pressure to extend non-commercial lending without obtaining clear government commitments should the loan become non-performing. Their capacity to evaluate credits, while being gradually improved, remains weak and the International Banking advisors (IBAs) placed in the two largest SCBs under the ADB's banking reform project are an important support in the transition. Proper governance structures, with checks and balances such as external board members, remain inadequate. And the Bank of Lao PDR (BOL) capacity to conduct supervision and enforce prudential regulations continues to be limited and will take time to improve.

The most recent phase of bank restructuring began after the government committed to reforming the financial sector in 2001 with the help of the ADB, World Bank, IMF, EC and bilateral donors. The restructuring of state banks, the improvement in banking regulation and supervision and the opening up of the banking system are all parts of this reform program. The restructuring program for the large banks has been slow in showing progress, but recently changes are beginning to be seen both in the operation of the banks as well as their performance. The financial condition of state commercial banks (SCBs) remains fragile, but has shown signs of improvement.

Financial Sector Reform

To date there has been no real vision or strategy on where the Government would like the financial sector to be or what it should look like in the next 5-10 years. There have been general statements, but no real direction. Through the BoL, the Government now is drafting a Financial Sector Strategy. The drafting team has defined six key areas as core to the draft strategy: Banking sector, financial sector infrastructure, microfinance, non-bank financial institutions, capital markets and the inter-bank market. While recognizing there could be more to the strategy, it was decided that in order for the strategy to move forward, it had to be manageable.

The sector plan is being drafted in line with the recently prepared 5 year Plan for BoL. The 5 year plan is general and operational in nature while the strategy is attempting to be more specific in direction. Common areas of concern remain the role and performance of the SCBs, access to financial services given that 80% of the population lives outside of the cities and current savings represents approximately only 20% of the population. There is a recognized need to better educate citizens on the role of the financial sector if there is to be a reduction on the use of cash in society and greater use of the formal financial system. BoL hopes to have prepared an action roadmap for the implementation of its Master Plan by June 2007. Each department is currently working on their respective action plans to ensure the target date can be met.

Prudential Regulation, Supervision, and Law on Commercial Banks

A draft law on commercial banks was recently completed with the assistance of IFC's MPDF. A drafting committee was established which included not only staff of BOL, but also MOJ and MOF. The Ministry reported that it saw as essential to the new law the ability of prospective borrowers to

provide a broader range of items accepted as collateral. They viewed this as critical to the continued efforts to build a private sector and to build further economic growth. The draft may be revised to better reflect that it is only intended to cover deposit taking financial institutions within the commercial bank definition as separate regulations exist for leasing and microfinance. A preliminary drafting workshop was held with participants from ministries and relevant sectorial authorities, domestic commercial banks, branches of foreign commercial banks and representatives of international financial institutions. Thereafter, the drafting team improved and re-edited the law in conjunction with the relevant authorities and expects to submit the draft law to the Ministry of Justice and the Office of the Prime Minister in October 2006. An early draft was also discussed with members of the National Assembly to ensure that the final draft would be acceptable to them. A copy of the draft has been provided to the IFIs for comment. The current draft does support a more level playing field in the area of general banking. It also contains provisions for increased corporate governance in banks, but does provide that all banks will be subjected to the same standards of operation.

It has been stated that Lao is attempting to upgrade its standards to those accepted internationally, while at the same time trying to recognize some of the big differences which may exist between the international standards and current conditions in Lao. Some caution may be needed in this respect in that experience suggests that this can impede the real implementation of needed changes by those who want to keep the status quo. Three important items remain however before knowing if this will indeed happen: a) final drafting must be completed and is expected to be done before the end of the year, b) the draft will need to be accepted by the authorities as well as the National Assembly and c) finally, implementation will need to be followed-up closely.

The draft is currently scheduled on the National Assembly's calendar for late 2006. Following its acceptance, a great deal of work will be required for implementation, including the need for additional implementing decrees and regulations. Included in such future regulations will be ones directed at loan classification and provisioning among others. The area of accounting standards for banks remains of some concern in that it will not be addressed at this time. This will require close cooperation between the MOF who generally has responsibility for accounting and auditing standards for LAO PDR, and BOL who must interpret the standards and provide guidance to the banking sector on their application. Finally, there has been a complete review of the presidential decree governing the management of foreign exchange and precious metals resulting in the identification of articles needing improvement.

State Commercial Banks

The SCBs have been run as Government entities and have often lacked good incentives and governance to encourage stronger performance and they in addition, they have faced interference in their operation. Some minor steps have recently been taken to begin to address some of these issues. Formal direct intervention has been reduced and the Ministry of Finance recently placed a representative on the Board of Directors of BCEL and will soon place one on the Board of LDB. These Board members are to represent the interest of the Government as shareholder and are to provide an independent outside perspective to the management of the Banks. It is not yet clear however if the desired outcome will be seen in that finding outside directors has been challenging, resulting in current staff of the MOF being asked to serve in this role. While this may be appropriate, what makes it a bit troublesome is the history of bankers and supervisors every few years trading positions which could result in a degree of familiarity which hurts the ability to truly act as an outside independent director.

Independent IAS audits are now being requested of the SCBs. IAS audits for 2004 were prepared for BCEL and LDB and each bank has prepared a plan of action to address the weaknesses identified by the auditors. It is the responsibility of BoL and MOF to monitor the performance of the banks as they take corrective actions. APB has recently started its 2004 and 2005 IAS audit which should help it to better define its greatest areas of need. The 2005 IAS audits for BCEL and LDB will commence shortly. The IAS audits are a step forward in addressing some of the deficiencies in data management, but are not of themselves the answer. Two factors bring into some question the potential impact of the audits, first, the audits are based upon the record keeping and accounting standards used by the banks, and thus can only look at the data that is available, second, the audits have been prepared at a point in time well past a reasonable delivery date rendering the data old and of less value. Efforts are needed to bring about more timely audits if they are to be meaningful to the banks' management as well as the bank

supervisors. Contracting for the 2006 IAS audits should commence immediately to ensure delivery of the audits before the end of the first quarter of 2007.

Performance of the banking sector has been very difficult to track. Poor accounting, bad record keeping, weak bank supervision and a lack of accountability have all contributed to the lack of reliable data upon which decisions could be made. There now is the possibility for this to begin to change.

Revised Governance Agreements were signed in August 2006. As part of the revised governance agreements the banks are to report on a regular basis a number of items related to performance. If the reports are effectively used, by both the banks and the supervisor, some data inconsistencies as well as some errors will be more easily uncovered which could result in better management and supervision. Over time this could lead to more accurate and timely reporting as well as more quickly identifying weaknesses in performance. MOF and BoL share responsibility for monitoring the performance, setting targets and following up with the banks when targets are not met. The first reports on performance are due at end October 2006. An on-going tracking of year on year loan portfolios is needed to provide evidence of the performance of banks and their borrowers

Banking Sector Performance

Although preliminary reports suggest a small degree of improvement in the financial operations of the banks, all three of the large SCBs report a need for assistance in resolving their stock of NPLs and removing loans from their books. They also report that new lending has improved and credit this to the international banking advisers, a significant reduction in policy lending, better loan policies including advances in credit risk and capacity building. BCEL reports net interest margin to be positive and NPLs resulting from new loans to be very low. Capital as of September 2006 was a negative (301 billion Kip), but if one were to credit BCEL for the 398 billion Kip in stock Government NPLs and an LOC paid on behalf of the Government, the negative capital turns positive. LDB reported negative capital of (313 billion Kip) in December 2005, and still showed the same negative amount in June 2006, but are now reporting that this number will be offset by at least 27B Kip. The lack of good accounting and record keeping coupled with weak insufficient supervisory follow up make verification of the progress difficult. In addition, it is not clear that the positive strides being made at the banks are sustainable absent additional changes to the sector. Currently the banks are only lending approximately 46% of the deposits (better than the 30% earlier reported), but are having to pay interest on all deposits. Interest income is currently possible primarily at the cost to depositors given the large interest rate spread, but as interest rates change this could easily turn negative.

Over the past few years, the economy has grown in spite of the financial sector. The financial sector today plays a minor role in the economy. While economic growth has been very good, the Government needs to think about sustaining the growth and take a more aggressive stance on the strengthening of the financial sector so that it can become a positive part of the economy providing effective intermediation and services. To do this, the Government needs to take a number of steps. It will need to more closely monitor the financial and operational performance of the banks, increase transparency in the reporting of the operations. Greater attention should be given to capacity building throughout the financial sector. Banks need to better understand how to lend to small businesses and how to lend when the credit is collateralized by non-real estate, and need the ability to quickly act on the collateral when the loan is not performing. The Government must encourage an infrastructure supportive of the financial sector and it should strengthen the accounting and auditing standards and procedures to bring them more in line with international standards. Finally, more competition in the banking sector could cause the existing banks to improve their performance or fail to survive.

Rural and Micro-Finance

The BOL microfinance regulation No.10/BOL issued in 2005 to implement the Rural and Microfinance Policy and Action Plan, provided for an enabling environment to support the development of the microfinance industry and encourage establishment of microfinance institutions under diverse forms and types of ownership. However, clearer enforcement of the regulatory framework for licensing microfinance institutions is necessary, especially in the case of foreign invested microfinance institutions. It is essential that this issue is solved in the spirit of the work

that is being done on the commercial banks law, and that a level playing field is established for all financial institutions in Lao PDR, including banks and microfinance institutions.

(For the reform measures taken in previous years please refer to the Annex–Box 4)

2.4 TRADE REFORM

BACKGROUND

Lao PDR has been integrating gradually into the world economy since 1989. The reform process accelerated after Lao PDR accession to the ASEAN and the joining of AFTA in July 1997. The highest current import tariff rate is 40 percent (compared to about 150 percent in 1995) and for most product groups it is below 20 percent. The current tariff schedule has six tariff rates: 5, 10, 15, 20, 30 and 40 percent, with non-weighted average MFN tariff of 11.3 percent. Non-tariff and quantitative import restrictions remain and in several sub-sectors are the primary binding restrictions.

Lao PDR started to implement the AFTA Common Effective Preferential Tariff (CEPT) scheme in January 1998 and will complete the liberalization schedule by 2008 reducing its tariff on imports from ASEAN countries to 0-20 percent by 2005 and 0-5 percent by 2008; however, the legislative enactments for 2004 and 2005 for this purpose have been delayed.

The Government has recently introduced a pilot of one-stop services at customs border check-points to reduce bureaucratic procedures and provide better export and import services.

In November 2004, the USA granted Lao PDR normal trade relations (NTR), bringing into effect the US Bilateral Trade Agreement (USBTA) with Lao PDR signed sometime ago. This means that Lao exporters now have direct access to the US market, instead of being restricted by prohibitive US tariffs without the NTR. In the short-run, the Lao PDR industries that stand to benefit the most from increased market access are the garment and handicraft sub-sectors. The commitments under this agreement are closely related to the reforms that will be required for accession to the WTO.

The Government has continued to make progress towards WTO accession and stayed on track with AFTA commitments. A number of actions have been taken in recent months:

Preparation of WTO accession

The GOL is planning to hold its 2nd working party meeting by the end of November 2006. To serve that purpose, the Lao government submitted the preliminary Legislative Action Plan (LAP)⁵ and Initial Offer (for goods)⁶ to the WTO secretariat in late October 2006. In parallel with holding multilateral negotiations, bilateral market access negotiations will also take place.

Progress on AFTA commitments

Implementation of AFTA CEPT Scheme. In 2005, Lao PDR completed the transfer of all tariff lines from the Temporary Exclusion List (about 3,402 tariff lines or about 96% of the total existing tariff lines) to the Inclusion List through five equal installment phases (started from 2001)³.

Reduction of tariff lines in the General Exception List (GEL). In order to open the trade with ASEAN member countries at an optimal level, in August 2006 the Lao government approved removal of 28 tariff lines (mainly on alcohol and beverage, soft drinks, tobacco and other related products) from GEL and will transfer it into the Inclusion List by 2013 through various installments, starting from 2008.

⁵ The legislative action plan preliminarily includes a list of laws and regulations subject to revision for WTO compliance, especially those relate to customs valuation, rules of origin, VAT, foreign exchange control, SPS and TBT.

⁶ The GOL has submitted the initial offer on goods as the first step, which proposed more than ten thousands tariff lines (all tariff lines based on HS 2002) for bilateral market access negotiations.

³ The implementation status of the 2006 CEPT - Scheme for AFTA by the Lao PDR is as follows: Lao PDR has no more products in the TEL, tariff lines at 0-5% rates are 94.58% and at more than 5% rates are 5.42%.

Elimination of non-tariff barriers (NTBs)

GOL is working closely with other ASEAN member countries (AMC) on implementing the work program for reducing the NTBs within the AFTA framework. The work program for the assessment of NTMs and elimination of identified NTBs was discussed among AMCs and then endorsed by 38th AEM in August 2006. AMCs compiled official legal documents and submitted to ASEAN Secretariat in September 2006. Further discussions and consultations on classification of NTBs are continued among AMCs. However, no tangible steps were taken so far by Lao PDR to implement these plans.

Although GOL has recently taken various measures to improve trade policies, reduce tariffs and promote trade, many remain to be done, especially with regard to the existing non-tariff barriers (NTBs), which are cumbersome for Lao exports. Currently, it requires tens of signatures to do an export: at least 16 government agencies are present for inspection purposes at border checkpoints. Transportation of goods inside and cross-country is very time consuming and costly, including multiple unloading and reloading of cargos when crossing the border. Clearly, Lao PDR could increase its exports significantly simply by removing the existing NTBs and make it easy to do exporting.

Piloting the Single Stop Services

Recently, Lao PDR and Vietnam have been piloting Single Stop Services at a border checkpoint between the two countries (Lao Bao international border checkpoint) under the GMS East-West Corridor program linking Laos, Vietnam and Thailand. Under these pilot services, all inspection work at the border checkpoint is being done jointly by both sides and each export or import from and to each of the two countries is examined just one time. Lao exports to Vietnam will be inspected jointly by officials of the two countries at Vietnam side of border and similarly exports from Vietnam are examined at Lao side. The Single Stop practices should reduce time and costs for exports and imports in general and facilitate trade and investment between the countries in the regions. This pilot is a first step towards implementing the ASEAN single stop and single window approach.

Completion of the Diagnostic Trade Integration Study (DTIS) and Action Matrix (AM)

During the National Validation Workshop on September 12, 2006 the GOL officially adopted the DTIS and Action Matrix, which articulate the key policy actions to be taken by the GOL in the near future in order to increase the export competitiveness and promote trade and investment in the country. The AM includes five key priority areas for actions:

1. Export competitiveness
2. Trade facilitation
3. Business environment
4. Trade Policy, Trade Agreements, and Global Opportunities
5. Trade opportunities for the poor

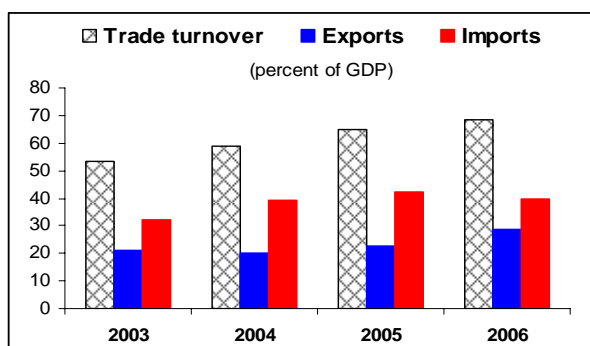
Successful implementation of the above priorities and elimination of major export constraints over the next years is the key towards achieving the export and growth targets set by the GOL in the next five-year plan (2006-2010).

Trade Developments

In recent years regional and international trade has increased remarkably. The share of total trade in GDP has gone up from 54 percent in 2003 to 65 percent in 2005 and is projected at 68 percent in 2006 (see Figure 7). The share of exports in GDP has also increased from about 20 percent in 2004 to 23 percent in 2005 and is projected to reach about 28 percent in 2006.

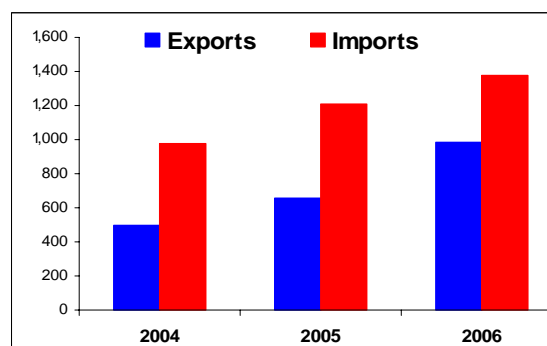
Following the 30 percent growth in 2005, exports are expected to jump by 50 percent (or rise to about US\$980m from US\$660m in 2005) in 2006. At the same time, imports are likely to grow at about 14 percent this year or from US\$1,200m to US\$1,370m (see Figure 8). The increased imports for the implementation of the large mining and hydropower projects explain the trade deficit that is observed.

Figure 7. Lao Trade and GDP



Source: WB staff calculations and projections based on IMF and Partner countries data. Recent projection for 2006

Figure 8. Lao Exports and Imports

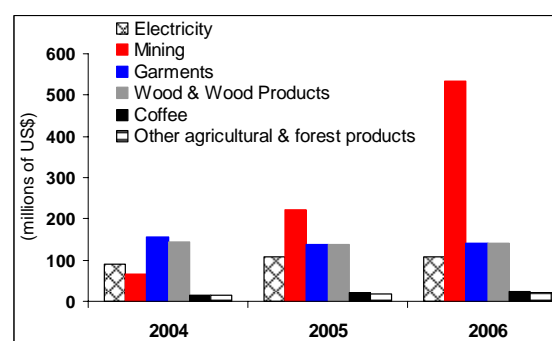


Source: IMF and Partner countries data. WB staff projection for 2006

Strong exports. The mining sector has been the main driver of export growth. Following the impressive performance in 2005 (more than 230 percent growth), this sector is expected to raise export earnings by about 140 percent in 2006 (or to US\$530m from US\$220m in 2005), driven by gold and copper prices. Exports of agricultural and forest products were also picking up with large investments in plantations of various cash crops and industrial trees (rubber, eucalyptus, palm oil, sugarcane) by investors from China, Thailand and Vietnam. In 2006, exports of agricultural products (including coffee) are expected to increase nearly by 20 percent.

Lao PDR export markets remain concentrated in ASEAN (Thailand, Vietnam and Malaysia), China, Australia and EU; exports to US are picking up, though slowly.

Figure 9. Exports of Major Commodities



Source: WB staff estimates and projections based on IMF/PCD data and recent GOL (MOC) inputs. Projections for 2006

Key exporters in Lao PDR

Like many other LDC countries, Lao PDR exported very little in the past decades. After the opening up of the country in mid 80s and the Asian crisis in 1996, many local and foreign investors have made new investments in various sectors of economy or increased their production and exports. Below are some of the key exporters, who export various products and services from Lao PDR to the region and other large world markets.

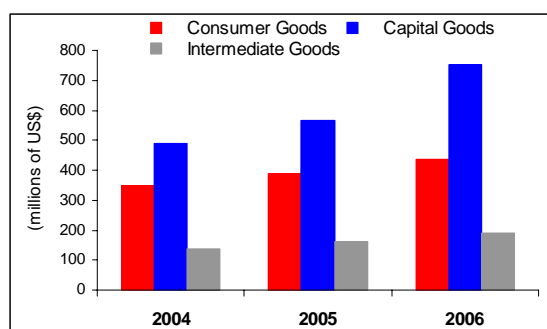
- **Garment Industry.** Despite the abolition of MFA in 2005, Lao exports of garments were growing in the first half of 2006, especially for knitted products. The key exporters include FDI and JV companies (more than 900 workers: Trio Lao Export, Lao Garment, Lane Xang Aporn, Great Lao MFG, Export Garment, Alpilao International, V M Inter Garment) and local producers (more than 500 workers: Aporn Lao, Kianvily Garment, P V Garment and other smaller firms).
- **Mining industry.** Currently, there are two major mining projects in Lao PDR operated by international operators from Australia - Lane Xang Mineral Ltd (Oxiana Resources) and Phubia Mining (Pan Australian Resources Ltd). LXML or Sepon mine project is the largest exporter of gold and copper in the country. In 2005, its export value was more than US\$200 millions and expected to double this year. Phu Bia Mining started its first gold exports in 2005 at a fairly small volume of around US\$10 millions. However, after the completion of Phu Kham mine's development in the coming years the company would be able to increase its exports of gold and copper significantly.
- **Hydropower.** At present, there are a few companies or projects in Lao PDR that export electricity to the neighboring countries, especially Thailand: EDL (SOE), Theun-Hinboun (IPP, EDL holds a 60 percent share), Houay Ho (IPP, EDL has a 20 percent share).

However, several new large projects are currently under construction, such as NT2 (GOL holds a 25 percent share), Nam Ngum 2 (EDL has a 25 percent share), Xe Kaman 3 (EDL has a 15 percent share) and by 2010 huge exports streams are expected to come from these projects (US\$400-US\$500 millions). Many other projects are in pipelines.

- *Woods and wood products.* Lao PDR has been traditionally exporting woods and wood products. In 2005, the exports of wood products (mainly floor tiles, furniture, wood accessories, plywood and other processed timber products) were about US\$140 millions, almost the same as 2004. The key exporters are KM 5 Wood Processing, Lao Challenge Wood Processing, Wilsontai Wooden (Lao PDR), Bajieng Wood Processing, IGETO Wood Processing and many other companies. The main importers of Lao wood and wood products are Thailand and Vietnam.
- *Coffee exporters.* Coffee is one of the main agricultural exports of the country. At present, the main exporters of Lao coffee are Dao Heuang Export-Import Company, Lao Export Company (Sinouk Coffee), KIKO Partnership Trading, MEX Food Champasack Province, UDOMSAB Import-Export and a few other firms. Some of the exporters have shifted from the traditional exports of unprocessed coffee (low valued-added) to high value-added or instant products. The major export markets of Lao coffee are EU countries, Japan, US and some ASEAN neighbors.

Composition of Lao imports. Imports are classified into three main product categories: investment, intermediate, and consumption goods. In 2006, imports of consumption goods and raw materials are expected to grow at 2005 levels, of about 12 percent for consumer and 17 percent for intermediate goods (or about US\$430m and US\$190m respectively). The capital goods are expected to jump by more than 30 percent due to large imports by hydro and mining projects as well as other investment activities in agriculture, manufacturing and services (or to about \$750m from \$570m in 2005). Lao PDR imports mainly from its traditional trade partners – neighboring countries, such as Thailand, China, Vietnam and others like Japan, Korea, Australia and EU.

Figure 10. Imports of major commodities



Source: WB staff estimates and projections based on IMF/PCD data and recent GOL (MOC) inputs. Projections for 2006

2.5 PRIVATE SECTOR DEVELOPMENT

BACKGROUND

The Lao PDR Constitution of 1991 protects state, collective and private forms of ownership. During the 1990s an active program of legislation began to lay the foundation for the development of market based rules and institutions to support private sector development. The foreign investment legislation was passed in 1988 and a legal basis for land for use and transfer began to be established in 1992-93. Today, agricultural production and most of manufacturing production is in private hands and state-enterprises cover only around one percent of employment.

Nearly 97 percent of manufacturing units are small (less than 10 employees). Of the medium and large units, 35 per cent are privately owned by Lao citizens and 55 per cent were joint ventures with foreigners; the rest are owned by government (including provincial governments).

Foreign investments have been flowing into garments, wood processing, tourism, hydropower generation and mining. Between FY 2001 to 2002, foreign investment volume increased and approvals of investment increased tenfold (from US\$42m to US\$492m for the same period) while actual investment went up by 23 percent (or from US\$75 m to US\$93m). In 2003, the approved FDI declined to US\$466m but the actual investment increased to US\$155m (or by 67 percent). The growth was largely due to mining, hydropower and service sectors. The main foreign investors are from Thailand, Malaysia, Singapore, Vietnam (ASEAN), China, Australia, South Korea, Taiwan, France, the Netherlands and the United States.

In 2004, The Ministry of Commerce issued PM Decree on Trade Competition that removed all restrictions on the movement of goods across provinces. This Decree, if appropriately enforced, should enhance market integration and ensure that all provinces have access to goods and services.

The Sixth National Socio-Economic Development Plan (NSED 2006-2010) recognizes the importance of private sector development for growth and poverty reduction, and in particular in achieving Lao PDR's long-term national development goal – graduation from the LDC's status by 2020. In the last few months, the Lao government has taken a number of reform actions to continue to improve the business environment in the country and encourage domestic and foreign private investments. These achievements include:

New Enterprise Law implementation. Further to the promulgation of the new Enterprise Law (EL) last year, the GOL continues to work on the action plan for EL implementation. In particular, a Prime Minister's Order on the implementation of the EL has been issued. The PM Order assigns main responsibilities of the line ministries in the process of EL implementation and appoints the MOIC as a focal point for the implementation process. It orders to implement the One-Stop-Shop for enterprise registration and assigns the MOIC as the responsible agency for this, as well as for coordination and alignment with other line ministries, especially the CPI. The order gives MOIC powers to establish provincial offices for enterprise registration and to establish the National Enterprise Database and the enterprise code system. Another very important step in the EL implementation process, that will be led by MOIC, is the completion of the negative list (of sectors where entry is restricted or controlled), in consultations with the ministries. Such list will be compiled and approved by the end of first quarter of 2007, according to the PM order.

In the meantime, the CPI has started the one stop shop service for registration of the enterprises with investment licenses, and, as the PM order notes, these two agencies need to work together in order to come up with the most convenient arrangement that is consistent with the EL main principles. The MOIC is currently doing a review of all laws and regulations to determine their consistency with the EL, and to propose modifications. The CPI is also planning to merge the Domestic and Foreign Investment laws; the amendment of the laws is preliminary scheduled for the March session of the National Assembly in 2008.

Preparation of the new Accounting Law. Ministry of Finance (MoF) has already drafted the new Accounting Law and held discussions with business community in June 2006. Subsequently, the law has been revised and implementation decree has also been prepared. An inter-ministerial committee (comprising MoJ, MoF, LNCCI and the Foreign Investment Committee of the CPI) will be set up by mid-November 2006 to review the draft Law for submission to the National Assembly in March 2007.

Preparation of the new sector Plan for sustainable development of mining in Lao PDR. Ministry of Energy and Mining has recently completed the final draft of the sector plan and conducted a two-day stakeholder and investor consultation workshop in September 2006 to discuss the draft. The final report will include the following key issues:

- *Provide input to mining sector policy*
- *Set the basic design of the GIS database.*
- *Formulate institutional strengthening measures*
- *Assess the mining sector and formulate the growth scenario.*
- *Identify tasks for mining promotion and prepare action plan.*
- *Propose necessary capacity building projects.*

The Lao Business Forum (LBF): The inaugural session of the Lao Business Forum, a public-private dialogue mechanism to improve the business and investment climate, took place on May 31, 2006 and was attended by nearly 300 participants. LBF featured speakers from the government, the private sector and donor community. The Forum's three Private Sector Working Groups (PSWGs), which are organized along industry lines (Manufacturing, Tourism, and Services and Trade), reported their progress on resolving key constraints to business. Key achievements included agreements with the government on: 1) an inspection exemption on certain types of items at the state customs warehouse to reduce the cost and time needed to process imports; 2) increased weight limits for trucks transporting goods on major highways; 3) an extension of the duration of tourist visas received on arrival from 15 days to 30 days; 4) enforcement of noise regulations on speedboats near major tourist destinations in Luang Prabang; and 5) the purchase of two new airplanes by Lao Airlines to increase the number of seats available on main tourist routes.

Since the first LBF was held, a new Working Group (Energy and Mining) was established. The second LBF is planned for late January 2007, which will address progress on long-term issues raised at the first LBF along with new issues raised by the private sector through the Working Groups.

Forestry industry restructuring. Government is also preparing a forest industry restructuring plan to rationalize industrial capacity and resource supply. GOL has issued an order for the controlled management of forestry and the timber industry (PMO) aiming to promote the wood processing industry and sustainable development. The order recognizes that past the government and relevant organizations had tried to manage and maintain forests by issuing orders, regulations and rules as well as a forest law, but that forests have been widely exploited and destroyed.

The order provides for wider dissemination of government policies, forestry law and forestry strategy plans from now until the year 2020, directs the Ministry of Agriculture and Forestry to cooperate with local authorities to make clear plans for the management of forest areas, including national conservation and forest production, forest protection, forest management and forest destruction. In addition to other provisions, the PMO requires the Ministry of Industry and Commerce to work with the Ministry of Agriculture and Forestry and relevant organizations to set standards maintained by wood processing factories, and to regulate and permit investment in processing. The order specifies that standards should apply to processing machinery, production equipment and vehicles; the standard of wood processing, management and marketing; the standard of hiring workers and the operating environment.

The ease of doing business in 2006: Lao PDR ranks 159 out of 175 economies in terms of ease of doing business, still far below other countries in the region, such as Cambodia (143), Vietnam (104), Mongolia (45), China (93), Thailand (18) and Indonesia (135). One of the main constraints is the time it takes to set up a business, which notably decreased this year to 163 days, from 198 last year. Still, this is which much higher than in most of other countries. It takes nearly half of the time to set up a business in Cambodia (86), Vietnam (50), Mongolia (20), China (35), Thailand (33) and Indonesia (97). Other obstacles include: dealing with licenses, registering property, access to credit, cost to export, and low investor protection.

Lao PDR has made several important steps to improving its investment climate, and reduced the number of days to start a business from 198 in 2005 to 163 in 2006. It is expected that in the near future more improvements will take place. In particular, the number of days to

start a business may fall to below 20 days, if the Enterprise Law is implemented with a short and reasonable negative list.

Looking at the Doing Business rankings for a particular country, it is important to understand the specific methodology used to calculate these numbers. The main purpose of the Doing Business methodology is to allow for international comparisons between many countries, with different regulation systems in place; such methodology is bound to miss the specificity of each particular country's regulation system (See Box).

Box. Methodology of the Doing Business rankings for starting a business

Doing Business records all generic procedures that are officially required for an entrepreneur to start up and operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions with relevant authorities. After a study of laws, regulations and publicly available information on business entry, a detailed list of procedures, time, cost and paid-in minimum capital requirements is developed. Subsequently, local incorporation lawyers and government officials complete and verify the data on applicable procedures, the time and cost of complying with each procedure under normal circumstances and the paid-in minimum capital. On average 4 law firms participate in each country. Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that all government and non-government agencies involved in the start-up process function efficiently and without corruption. If answers by local experts differ, inquiries continue until the data are reconciled.

To make the data comparable across countries, several assumptions about the business. In particular, the results hold for a specific type of business, which is: A limited liability company, Operates in the country's most populous city; Is 100% domestically owned and has 5 owners, none of whom is a legal entity; Has start-up capital of 10 times income per capita at the end of 2004, paid in cash; Performs general industrial or commercial activities, such as the production or sale of products or services to the public; It does not perform foreign trade activities and does not handle products subject to a special tax regime; the business is not using heavily polluting production processes; Leases the commercial plant and offices and is not a proprietor of real estate; Does not qualify for investment incentives or any special benefits; Has up to 50 employees 1 month after the commencement of operations, all of them nationals; Has a turnover at least 100 times income per capita; Has a company deed 10 pages long. Also, several assumptions about procedures are used:

- A procedure is defined as any interaction of the company founder with external parties (government agencies, lawyers, auditors, notaries);
- The founders complete all procedures themselves, without middlemen, facilitators, accountants or lawyers, unless the use of such a third party is mandated by law;
- Procedures that are not required by law for starting a business are ignored;
- Shortcuts are counted only if they fulfill 3 criteria: they are legal, they are available to the general public, and avoiding them causes substantial delays;
- Only procedures required of all businesses are covered. Industry-specific procedures are excluded.
- Procedures that the company undergoes to connect to electricity, water, gas and waste disposal services are not included unless they entail inspections required before starting operations.

Time is recorded in calendar days. It is assumed that the minimum time required for each procedure is 1 day. Time captures the median duration that incorporation lawyers indicate is necessary to complete a procedure. If a procedure can be accelerated for an additional cost, the fastest procedure is chosen. It is assumed that the entrepreneur does not waste time and commits to completing each remaining procedure without delay. The time that the entrepreneur spends on gathering information is ignored. It is assumed that the entrepreneur is aware of all entry regulations and their sequence from the beginning.

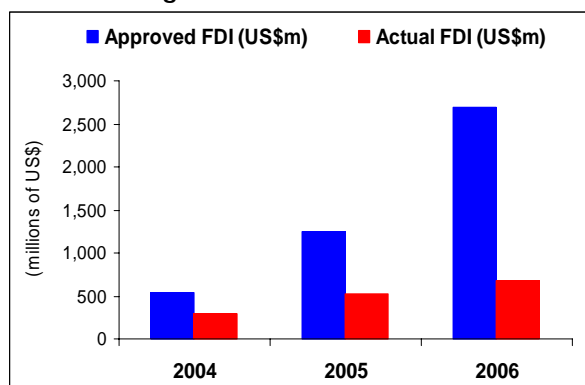
Source: Doing Business 2006

(For background on measures taken for private sector in previous years please refer to the Annex – Box 6)

FOREIGN DIRECT INVESTMENT (FDI)

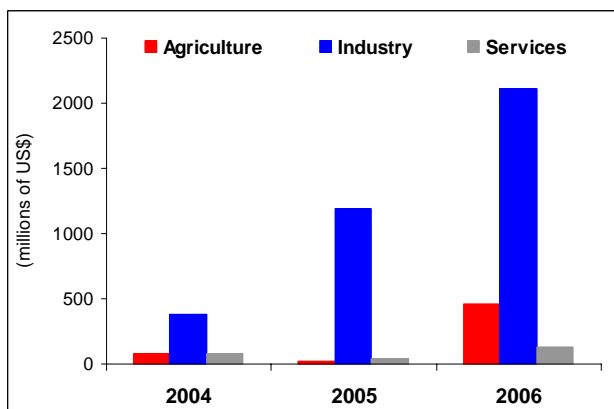
As documented in the previous issues, FDI in Lao PDR has been growing fast in the post-crisis environment. In 2006, Lao PDR continued to see a rapid growth of FDI: actual FDI in the country is expected to increase by about 30 percent (or roughly from US\$500m in 2005 to about US\$650m in 2006, see Figure 11). The rapid growth has been driven by large investments in the industry sector (Figure 12), especially hydropower projects, such as NT2, Nam Ngum 2 and Xe Kaman 3 (nearly US\$500m in total for hydro projected in 2006 compared to about US\$400m in 2005). In addition, investments in the mining sector are also expected rise by about 70 percent (or roughly from US\$40m in 2005 to US\$70m in 2006 backed by Phubia Mining/Pan Australian). FDI in agriculture (mainly plantations of rubber, eucalyptus and cash crops) is expected to double in this year where services to go up by more than a half.

Figure 11. FDI in Lao PDR



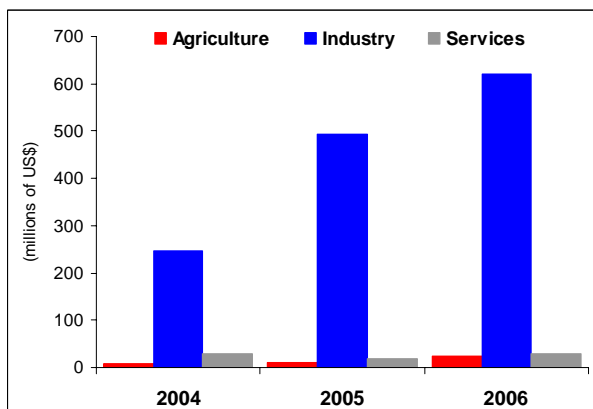
Source: Lao authorities (CPI) and WB staff estimates and projections (2006)

Figure 12. Approved FDI by sector, US\$ m



Source: Lao authorities (CPI). Recent projection for 2006

Figure 13. Actual FDI by sector, US\$ m



Source: WB staffs estimates and projections (2006)

Major foreign investment projects in Lao PDR

In 2006, the structure of Lao PDR's investments seems to have started changing to a better diversified, even though at a slow pace, as large projects still account for almost 90-95 percent of total FDI.

Key investments in agriculture

The Lao agriculture sector has some potential for FDI, especially for plantations of various industrial trees and crops. Recently, many investors from the neighboring countries, such as China, Vietnam, Thailand, India and others have started to make investments in this sector (amounting to several hundreds millions USD, by some estimates). In addition, more than a hundred thousands hectares of long-term concession land were granted to the investors for producing rubber, sugar, pulp from eucalyptus and palm oil. In order to maximize the benefits and reduce negative impacts from the accelerating influx of FDI in this sector, it's very important that GOL is prepared to monitor the development and be in a position to ensure that the growth dynamic is shared more broadly among the upland farming communities and takes environmental *sustainability* and *social* safeguard issues, including consultation with local communities, adequately into consideration.

- *Plantation of rubber trees.* It is one of the most active areas for FDI. During the last few years, foreign investors have been making remarkable investments in rubber plantations in Lao

PDR, amounting to more than US\$100m in total. These include plantation activities by (1) Daklak Rubber Company of Vietnam (a US\$30m project covering four Southern provinces: Champasack, Saravan, Sekong and Attapeu); (2) Vietnam General Rubber Corp. (a US\$22m investment in Champasack); (3) The Lao-Thai Hua Rubber Company (a US\$35m joint plantation project in Vientiane, Borikhamxay, Khammoune and Savannakhet provinces by Thai Hua Rubber Public Company (Thailand) and New Chip Xeng Company (Lao PDR)); (4) Junnan Power Biological Products Group, China (a US\$15m rubber plantations and processing project in Vientiane province); (5) other rubber plantations in Northern provinces, such as Luangnamtha, Oudomxay and Luang Prabang by Chinese investors.

- *Plantation of eucalyptus and acacias*, such as (1) Lao OJI Plantation (OJI Paper Group, Japan), a US\$49 million investment project in Borikhamxay and Khammouane provinces; (2) Aditya Birla Group (India), a US\$350 million project designed in two phases: plantation of eucalyptus from 2006/07 in Savannakhet and Khammouane provinces and development of a pulp industry in 2012.
- *Sugarcane plantation*. Mitr Phol Sugar Corporation (Thailand) started a \$22.5 millions project this year in Savannakhet for plantations and processing of sugarcane. Besides, many villages in the North of Lao PDR have also been growing sugarcane for exports to China since the last few years, especially in Phongsaly, Luang Namtha and Oudomxay provinces.
- *Contract farming of maize, soyabean, cassava, starchy roots and other cash crops*. Apart from the above, investors from the neighboring countries, such as Thailand, China and Vietnam are also interested in planting various crops in Lao PDR using contract farming, especially in border provinces, such as Sayaboury, Luangnamtha, Oudomxay, Phongsaly, Houaphanh and other Southern provinces.

FDI in processing industries

Several processing projects are being constructed in Lao PDR. Khammoune Cement plant is the largest cement industry (a US\$60 million joint venture project by Lao and Chinese investors). The plant has almost been completed and should go into operations by end 2006 or early 2007 with a production capacity of about 800,000 tones per annum. GoL has recently approved a new brewery project (US\$45m) - Lao Asia Pacific Brewery, a joint venture between Singaporean investors – Asia Pacific Brewery – and GOL and local investors. The Lao Asia Pacific Brewery is expected to start construction work in 2006/07 and production in 2008. Another big project is the construction of a sugar factory (about US\$20 million) in Savannakhet by Mitr Phol Sugar Corporation (Thailand) will go in operation in 2006. More agro-processing industries are expected to be developed in the coming years to cope with rapid expansion of agricultural plantations (e.g. rubber processing and pulp industries).

FDI in trade and services

Foreign investments in the services sector are correlated with the overall trade and tourism trends. One of the largest investment projects seen so far is the *Golden Boten City* (located on the Lao-Chinese border) - a multiyear FDI project started in 2003 by investors from Hong Kong/China. The project will be completed in three phases (under a 30-year concession agreement from the Lao government): (1) \$103 million will support an international exchange centre and a centre for the transit of goods to and from ASEAN countries as well as Japan, South Korea and China; (2) an international conference centre with 2,500 hotel rooms for business people and a 36-hole golf course and park will be built; (3) 2,000 hotel rooms and 500 guesthouses to accommodate visitors. Ecotourism sites and cultural attractions, especially those of local ethnic groups, are expected to attract foreign visitors. The project is currently at the final stage of constructing a five-star hotel, shopping center and casino as part of the phase one's plan.

Another project is *Talat Xao Shopping Mall* (US\$27 million) funded by Singapore investment house Excalibur Group Chief Executive Company. The project is in three phases: (1) construction of a new five-storey commercial building, (2) reconstruction of the central arcade (Apat) and, (3) the final stage - building the current parking lot into a park. The whole project is expected to finish by 2009. Just recently, a five-star Savan Vegas Entertainment Hotel project (US\$25m by local investors) was approved by the GOL. The project will develop a service complex, which includes over 100 rooms modern hotel, restaurants, entertainment facilities (casino) and a golf course to serve the increasing number of local and foreign visitors to this part of the country.

Key investment projects in natural resources sector (hydropower and mining projects)

Lao PDR is famous for its rich natural resources (water, minerals and forests). The gross investment in the sector accounted for more than 80 percent of the total FDI over the last few years. Some of the large projects are discussed below.

Major hydropower projects under construction. FDI in the power sector made up more than half of the total foreign investment in Lao PDR. Currently, there are three large projects under construction: Nam Theun 2 (NT2), Nam Ngeum 2 and Se Kaman 3. All three projects together are worth more than US\$2 billion.

- Nam Theun 2 is the largest hydropower project in Lao PDR (US\$1.2 billion, 1070 MW, in KM province) in which French EDF has 35 percent of the total share; GOL and EGCO each hold 25 percent and Italian Thai development 15 percent. The electricity produced by NT2 will be mainly for exports to Thailand.
- Nam Ngum 2 project (about US\$800 million, 615 MW, in VTE province) is sponsored by South East Asia Energy Limited (SEAN) - a joint venture comprising Ch Karnchang Public Company (28.5%), EDL (25%), Ratchaburi Electricity Generating Public Company (25%), Bangkok Expressway Public Company (12.5%), Shlapak Development Company (4%), PT Construction and Irrigation Company (4%), and TEAM Consulting Engineering and Management Company (1%). The project is mainly for exports to Thailand.
- The Xe Kaman 3 project (about US\$360 million, 260 MW, in Attapeu province) is owned by Vietnam-Lao PDR Investment and Development Company (EDL has a 15 percent share) and the electricity is expected to export to Vietnam.

Key mining projects in Lao PDR. There seem to be a big boom in the mining sector. GOL has recently granted more than 140 concession agreements to the investors and most of the projects are at the stage of feasibility studies. There are currently 35 working mines in the country and most of them are small and without modernized production system (except Sepon and Phu Bia mining projects owned by international operators – Australian). Some of the mines are operated by Lao government agencies (13), China (6), Thailand (3), Vietnam (2) and other.

- The Sepon mine (gold and copper) is the largest mining project in Lao PDR and has the biggest impacts on Lao economy so far. The project is operated by Lane Xang Minerals Limited (Oxiana, Australia) and has invested more than US\$400 million so far. The Sepon mine has been operating since 2003 (gold) and currently produces 200,000 ounces of gold and 60,000 tones of copper cathode. All the products are currently for exports to the neighboring countries (copper) and Australia (gold).
- Phu Bia Mining project is the second largest mining operation in the country and owned by Pan Australian Resources Ltd. It operates at two sites (Phu Bia and Phu Kham mines) with total project costs of about US\$300 million, including development of Phu Kham mine. The project's first operation started in 2005 at Phu Bia gold mine and, with operations at Phu Kham gold mine by mid-2008, it would be able to produce about 50,000 tones of copper, 50,000 ounces of gold and 400,000 ounces of silver a year.

Successful joint ventures between FDI and local SOEs

In recent years, many foreign investors have invested in state-own enterprises (SOEs) in Lao PDR and became their strategic partners. These include Lao Brewery Company (LBC, 50/50 share holding for FDI/GOL), Lao Soft Drink Company (70/30), Lao Tobacco Company (53/47), Lao Telecommunication Enterprise (LTE, 49/51), Lao Insurance Company Ltd (51/49), and a few other hotel and tourism businesses.

The majority of these joint projects is profitable and have been performing well, especially the biggest two joint ventures: LTE with total investment of about \$180 millions and LBC or Beer Lao – more than \$30 millions in 2004⁷. As the leader of food processing industry, LBC is planning to expand its production capacity by almost 80% in 2006-2007 by building the second brewery factory in Champasack with an estimated cost of about US\$20 millions. Lao SOEs in joint venture with foreign partners have been succeeding due to the following factors:

- improved management skills and efficiency;

⁷ Data from SAMD/MoF (2004 SOEs performance assessment)

- becoming more customer-oriented;
- better quality of their products and services;
- greater access to finance; and most importantly,
- more independent in making their business decisions.

Local investments (private and SOEs)

Knowledge on local investments in Lao PDR is very limited. In 2005, local investment was estimated at around US\$80-100 million. The majority of local businesses are micro, small and medium enterprises in various economic sectors, such as agriculture (crop and livestock farming and plantation), food and wood processing, car and motorbike assembling, garment and other light manufacturing, wholesale and retail trade, hotels and restaurants, transport and other services. Some large local investors (including SOEs) have joint ventures with foreign companies and engaged in various industries, such as manufacturing, processing, hotels and hospitality services, plantations, hydropower and mineral explorations.

PART III – DONOR ASSISTANCE TO THE REFORM AGENDA

Lao PDR has a high dependence on external support, some of which flow into considerable technical assistance. This Part examines the sort of technical assistance and other support that the donors are providing to the Government's policy reform agenda. This information has been provided by donors and has been collated by the Monitor.

Public sector governance. Governance is one of the areas that seem to receive a lot of donor assistance. Currently, there are more than 20 active projects in this category, which are supported by both multilateral and bilateral donors, such as ADB, Australia, EC, France, Japan, New Zealand, Singapore, SNV, Sweden, SDC, UNCDF and UNDP. These projects cover various aspects of public sector governance, especially public administration, capacity building for various government agencies and National Assembly, decentralization, public financial management, as well as legal and judicial reform.

In recent years, with donor support, GOL has made some improvements in the public sector governance. However, overall it remains weak and much more effort and assistance is needed in this area in order to increase the efficiency and improve the quality, especially for public administration and public financial management (PFM). To achieve that objective, GOL has recently adopted a number of reform programs, PEMSP is one among others. By planning to adopt the new budget law (November 2006), GOL has made a strong decision to optimize revenue collection and strengthen PFM by centralising customs, tax and treasury administrations and improving fiscal planning and budgeting processes. In this regard, donor support to the implementation of the new budget law is critical, especially through PEMSP -- a multi-year PFM reform program owned and led by GOL. Currently, a few donors have expressed their interest to support the program; however, greater involvement of other donors is vital. Successful execution of the program will fundamentally improve the GOL's PFM and ensure an efficient use of government revenues and donor resources in socio-economic development: enhancing growths and reducing poverty in the country.

SOE and financial sector. The key donors in this area include ADB, IMF, WB, France, Japan and SIDA. *Banking sector reform* in Lao PDR started many years ago with support from ADB, IMF and WB. Despite of huge effort made in recent years, the reform process in this sector was still slow. Since Lao banking sector is very small with poor and limited services, continuous support in this area is essential to build capacity, raise quality and broaden services and improve access to credits to facilitate rapidly growing investments and trade in the country, including SMEs and micro businesses. However, much will depend on the commitment of the Government to reform this sector. *SOE reform* is another front of reform that aims at resolving NPLs of the state-owned commercial banks (SOCBs) and improving overall business performance of SOEs. Currently, only WB and Japan are providing support to the SOE restructuring agenda.

Trade development. Trade is one of the main crosscutting issues and it covers a broad range of sectors and sub-sectors and involves many different stakeholders. As reported above, trade development agenda in Lao PDR is seen by GOL as the driver for growth and poverty alleviation and

regional integration and WTO accession as the engine for reforms. Although there were some achievements in the past, extensive work remains to be done in the coming years, especially with regard to creating a favorable environment for enhancing trade and investment in the country and acceleration of preparation for AFTA and WTO accession.

Recently, GOL has adopted at the National Validation Workshop the DTIS and Action Matrix, which articulates a comprehensive trade-related policy reform actions and programs to support its implementation. With limited capacity and resources of GOL, donor assistance in this extremely important agenda is inevitable. Although many donors providing support to various aspects of trade-related work in Lao PDR (ADB, Australia, EC, SECO, ITC, UNCTAD, UNDP, US and WB) streamlining their assistance and coordination under the IF framework and the Action Matrix is very important. Moreover, active participation and involvement and support to the implementation of the AM from various donors, both multilateral and bilateral, is critical. To pick up the momentum, some of above donors have already shown their interest and started to work with GOL and discuss the modalities for possible support on trade-related issues. Active participation from other donors is crucial to fill the large gaps of support to the AM. Consequently, the outcomes of the future trade and trade-related reforms will very much depend on extent to which donors participate and provide support to the GOL. On the other hand, It's very important that GOL/MoIC continues to realize its ownership and leadership and coordinate well with other line ministries and other stakeholders concerned.

Private sector, Tourism development and land reform. Developments in these areas are closely linked to the trade and trade-related issues and mostly included in the DTIS Action Matrix. Currently, many donors, such as ADB, Germany, Japan, MPDF/IFC/WB, SNV, Switzerland, UNCTAD, UNDP, UNIDO, WB, provide significant support to various components of *private sector development* agenda in Lao PDR (improving environment for doing business, legal framework, capacity building for GOL and private sector, and other issues).

Tourism development is another area that received donor support. So far, there are few donors providing assistance in tourism (ADB, Australia, EC, Japan, NZAID and SNV). Among other donors, ADB is seen to be the most active player for developing tourism related infrastructures in Lao PDR (tourism sites, access roads, airports and other under Mekong Tourism Development Program). Capacity building is an area that needs more support from donors, especially skills and English language training, upgrading of hotel and hospitality management skills and improving quality of tourism and tourism-related products and services in the country.

Another important area is the *land reform*. GOL has been implementing the land reform agenda since a few years ago, especially under the land titling program supported by WB and Australia. The land reform work, as compared to other areas, received huge funding from the donors (WB, Australia, Germany), however, there still need to enhance capacity of GOL to be able to absorb and accelerate the reform program. On the other hand, there's also a need to promote the use of land titles as collaterals for bank credits, simplify procedures for registering property and facilitate real-estate business in the country. Additional donor support to these matters is needed.

A description of these and other assistance projects is provided below.

3.1 PUBLIC SECTOR GOVERNANCE

ADB

- Public Expenditure Planning for National Growth and Poverty Eradication Strategy (\$0.7 million, 2005-2007). The TA provides capacity building and advisory services aimed at: (i) improved and effective allocation of public resources according to the Government's development and poverty reduction policy objectives; and (ii) improved quality of fiscal planning.

- Enhancing Government Accounting Regulations and Procedures – Phase II (\$0.62m, 2003-2006). The TA provides capacity building support to the Government for: (i) provision of reliable, timely, and relevant financial information by all ministries, agencies, and offices of government; and (ii) improved accountability of public financial resources at central and provincial governments.

- ***Institutional Strengthening of the National Audit Office*** (US\$0.7m, 2001-2005). The overall objective of the TA is to strengthen the state audit function in the Lao PDR by building the capacity of the National Audit Office staff. The TA specifically aims to assist the Government in upgrading NAO's capacity to effectively conduct audits on the basis of modern audit methodologies, systems, and procedures.

- ***Capacity Building for Gender Mainstreaming in Agriculture*** (US\$0.4m, 2005-2006). The TA aims to support the Government to (i) reduce poverty through gender mainstreaming in policies and programs to ensure equal benefits for men and women; and (ii) help build capacity of the National Commission on Advancement of Women.

- ***Promoting Governance in Financial Transactions***. (US\$0.65m, co-financed by the Government of Luxembourg, 2006-2007). The TA aims to strengthen the formal and informal mechanisms for commercial dispute resolution so as to ensure predictable, transparent and speedy resolution supported, where needed, by court judgments effectively enforced. A reliable system for commercial dispute resolution in accordance with the rule of law and a fully operationalized secured transactions registry will reduce the risk of doing business in the Lao PDR and thereby facilitate foreign direct investment and private sector development.

Australia/AusAID

- ***Asia Regional Trafficking in Persons Project – ARTIP*** (A\$ 21m for Lao PDR, Cambodia, Myanmar, Thailand and Indonesia 2006-2011). The goal of the project is to contribute to the prevention of human trafficking in the Asia region. The purpose of the project is to facilitate a more effective and coordinated approach to people trafficking by criminal justice systems of governments in the Asia region. The project comprises of five components: (1) Strengthened specialist and general law enforcement responses to trafficking; (2) Strengthened judicial and prosecutorial responses to trafficking; (3) Enhanced policy, legal, research and outreach capability; (4) Engagement of new Project and partner countries; (5) Project management.

- ***ASEAN-Australia Development Cooperation Program – AADCP*** (A\$45 m, 2002-2008). **Regional Partnerships Scheme** component supports governance sector in areas of taxation, banking, enforcement of intellectual property rights and program and project design. **Program Stream** component has a governance focus in areas of standards and conformity assessment, customs capacity building, legal infrastructure for E-commerce, foreign direct investment data collection and reporting, private sector competitiveness, trade-related aspects of SPS.

UNDP and other Donors

- ***Governance and Public Administration Reform*** - GPAR Central Phase II. (Total US\$2.2m: UNDP-US\$0.92m and SDC-US\$1.35 2001-2006). During the first project had aimed at generating a high degree of understanding and commitment to the reform concept at senior political and bureaucratic levels of the government. Phase II focuses on strengthening the government's capacity to implement GPAR by supporting: (1) Strategic Management of the GPAR Program, (2) Capacity Development of the Cabinet of the Prime Minister's Office, (3) Priority Civil Service Reforms, (4) Implementation of the Decentralization Policy, (5) Targeted Central and Local Administrative Improvements, and (6) Priority GPAR Related Training.

- ***The GPAR: Luang Prabang Pilot Phase II*** (Total US\$3.098m: UNDP-US\$ 0.59 m; SIDA-US\$2.5 m, 2005-2009). The purpose is to assist the Luang Prabang authorities in the design and implementation of a rights-based local governance system, in order to provide cost-effective services to the population. It supports the design and implementation of governance and public administration reforms related to the functioning of provincial departments so as to improve delivery of selected basic services for rural households (primarily in the health and education sector) and facilitate entrepreneurship and pro-poor business development.

- ***The GPAR: Xieng Khouang Pilot*** (Total US\$2.0m: SDC-US\$1.5, UNDP-US\$0.5m and SNV: advisory services and cost sharing agreement; 2005-2008). The project sets out to strengthen the operational capacities of selected government institutions at the provincial and district levels to contribute to poverty reduction and equitable economic growth. As such the project will pilot governance and public administration reforms with emphasis on more effective and participatory services in the agricultural sector and strengthen financial management and accountability. The project will facilitate institutional change to create an enabling environment especially for farmers and local entrepreneurs, notably by enhancing people's greater involvement and ownership.

- **The GPAR Saravane project - Saravane Governance, Public Administration Reform and Decentralised Service Delivery Project.** (Total US\$3 million; UNCDF US\$1.9, UNDP US\$0.5, EU US\$0.6, 2005-2009) GPAR Saravane will provide substantive support in six main areas: (i) inclusive and pro-poor planning and budgeting at local levels; (ii) effective and transparent implementation of local infrastructure and service delivery; (iii) financing and financial management of local public service delivery functions; (iv) organisational strengthening at provincial, district and sub-district levels; (v) human resource management and capacity development; and (vi) informing national policy-making on the basis of project experience in Saravane Province

- **The GPARLSP Khammouane Preparatory assistance project** (Total US\$ 1.13m: UNDP: US\$0.4m, SNV:-US\$0.15m and World Bank: US\$0.58m, 2005-2006). The project aims to provide a sound foundation through governance reform and preparatory studies, for a longer-term provincial programme that can strengthen livelihoods and facilitate rapid economic growth in Khammouane province. The project will focus on building an appropriate vision for growth and livelihood development, taking into account the opportunities from the construction of the Nam Theun 2 dam and route 12, while strengthening governance capacity to address this agenda for action. This will serve as basis for the main project which starts in 2007.

- **The Sekong Ethnic People's Development (SEP-Dev) Project, Phase II** (Total US\$2.33m, 2001-2006; NORAD 0.83m, UNDP 1.5m) – The project supports local ethnic communities in Kaleum and Dakcheung districts to play a part in reducing poverty through infrastructure activities and the introduction of agricultural alternatives to shifting cultivation practices. The project is furthermore supporting capacity development of various government agencies that implement project activities. A new project, which will build on SEP-Dev's achievements in Sekong, is currently under development.

- **Strengthening the National Assembly of Lao People's Democratic Republic** (US\$1.5m: EU – US\$1.12m and UNDP - US\$0.41m, 2004-2007). UNDP has been a strong partner of the National Assembly for several years, with a series of projects that have helped strengthen the Assembly with regard to the legislative process and oversight function. This project takes a longer-term strategic look at the areas of assistance needed to help the National Assembly implement its constitutional mandate.

- **Strengthening International Legal Instruments in Lao PDR, Phase II** (US\$1.26m: Finland – US\$0.65m, EU – US\$0.39m and UNDP – US\$0.08m, 2005-2008). The project aims to strengthen the capacity of the Department of Treaties and Legal Affairs in the Ministry of Foreign Affairs in particular to enhance dissemination, enforcement and reporting mechanisms relating to international obligations of Lao PDR.

- **Development of Lao PDR Legal Sector Reform Program** (US\$0.47m: UNDP – US\$0.27m and SIDA - US\$0.20m, 2004-2006). This Preparatory Assistance (PA) project has intended to initiate a long-term programme of support to the government for legal sector reform. It has led to the development of a long-term, strategic vision for legal sector reform (Legal Sector Master Plan 2006-2020), which is being finalized and is expected to be approved by the GoL during the last quarter of 2006. A follow-up phase of this project is currently under development and will focus on implementation of some of the priority reforms outlined in the Master Plan, in cooperation with the Ministry of Justice, Ministry of Public Security, Supreme People's Court, and Office of the Supreme Prosecutor, among others.

- **Enhancing Access to Justice** (US\$0.37m: UNDP – US\$0.24m and DGTTF - US\$0.13m, 2004–2006). The government intends to make the Lao Bar Association (LBA); presently supervised by the Ministry of Justice, an independent institution. This project aims to assist the government in i) strengthening the Lao Bar Association to function eventually as a professional, independent institution; and (ii) creating an enabling environment for the implementation of a legal aid system in Laos. The LBA phase II project builds on achievements of the previous project. It focuses on three main areas, namely institutional capacity building, education and legal aid. As a result, the project will contribute to the following outcomes I) improved functioning of the LBA as a professional, self-regulatory organisation; ii) improved legal knowledge, skills and professionalism of members of the LBA; iii) improved awareness of the role and function of the LBA; iv) increase in the number of practicing lawyers and the LBA membership; and v) improved access to justice for the poor and vulnerable, particularly women and children.

- **Support for Implementation of the Sixth Five-Year Plan (2006-2010)** (US\$2.4m: UNDP – US\$ 0.8m, 2006-2010) – The project aims to assist the Government of the Lao PDR in the implementation of the Sixth Socioeconomic Development Plan (2006-2010) including the constituent poverty reduction strategy and the MDGs; and in monitoring and evaluating the results. Specifically, the project will help the Government of the Lao PDR in achieving three outcomes: (i) incorporation of the poverty reduction and MDG priorities and programmes of the Sixth Plan (2006-2010) in the annual plans and budgets of selected Ministries and three pilot provinces and implementing them; (ii) enhanced capacities of CPI, selected Ministries and three pilot provinces for improved implementation monitoring, evaluation and reporting; and (iii) establishment of a research network comprising the National Economic Research Institute (NERI) and selected Ministries and Agencies to undertake policy research to support planning, monitoring and evaluation. The Department of General Planning in CPI is the implementing partner for the project.

France

- **Strengthening the capacities:** of ministries through NOSPA (Foreign Affairs, Justice, Office of Public Prosecutor), (US\$1.5m, 2003-2005). Its main activities include training of trainers, seminars, study tours, scholarships, French language training and support for equipments in order to enhance capacities of MoFA's and MoJ's training centers. The project is implemented through NOSPA.

JAPAN

- **Legal and Judicial Development Project** (US\$ 4million, JICA; Technical Cooperation Project 2003–2007). This project aims at developing human resources and the legal and judicial infrastructure with the Ministry of Justice, People's Supreme Court and Office of Public Prosecutor General. The project will support development of legal database, statute book, law textbooks and dictionaries in civil and commercial laws, prosecutor's manual, and People's Supreme Court casebook.

- **Project for Capacity Building for Public Investment Program Management** (US\$ 3million, JICA; Technical Cooperation Project 2004-2007). This project aims at improving overall management of domestic PIP (implemented by the Lao budget) in cooperation with the Committee for Planning and Investment (CPI). The main activities of the project are to support (1) planning, appraisal, monitoring, and evaluation of PIP, (2) providing workshops and training (3) training officials through the implementation of the actual project in selected provinces (OJT), (4) making a "PIP project guideline," "PIP program guideline," "PIP project manual," and "PIP program manual" and (5) establishing a coordination network among concerned organizations for PIP management.

- **Local Administration Capacity Building Support to PACSA** (US\$ 0.3 million, JICA; Advisor and Training, 2007-2008). This technical assistance mainly aims at (1) assisting to draft regulations, guidelines, and procedures related to "Law on Local Administration" and other concerned rules, and (2) assisting PACSA to design and implement a national local administration capacity building program.

New Zealand

- **English Language Training for Officials** (US\$0.284m, Ongoing). ELTO is a long standing project that is providing English language training to mid level officials. The project moved into a new phase at the beginning of 2003.

Sida

- **Institutional capacity building for National Statistical Centre** – twinning cooperation between National Statistical Centre and Statistics Sweden finance by Sida since 1992. A new and final phase was concluded in July for the period 2005-2008, amounting to about US\$3.2 million USD. The project objective is: to provide users with statistical information in accordance with the Strategic plan, following the defined quality concepts. The specific outputs are: 1) NSC has a regular statistical production program within its area of responsibility, 2) NSC has an efficient organisational structure and working methods to manage its regular statistical production, 3) NSC has sufficient professional capacity to produce statistics that meet the defined quality, 4) NSC has an efficient organisation in terms of financial management, 5) NSC is the main coordinator of the National Statistical system.

Singapore

- Laos-Singapore Training Centre (US\$2m, 2001-2008). The centre, established by the Singapore Government in Vientiane, provides capacity building for the Lao government officials in IT, health, economic and finance policy planning, English language training, etc. As of September 2006, the centre has trained a total of 2,300 officials.
- Customised Training Packages (US\$0.15m, 2004-2006). Two special training packages were arranged to assist the Lao preparations for chairing ASEAN meetings. Other packages included training in anti-corruption, English language training for provincial officials as well as a project in translating Lao laws into English.
- Singapore Cooperation Programme Training Award (ongoing since 1992, US\$0.45m for 2000-2005). Under the Singapore Cooperation Programme, government officials from 164 developing countries applied for various short-term courses held in Singapore in various fields such as IT, health, port management, civil aviation, disaster management etc. Some of these courses are jointly conducted with other donors such as JICA, AusAID, CIDA, WTO, World Bank, WIPO etc. As of September 2006, over 1,700 Lao officials have received the Singapore Cooperation Programme Training Award.

SNV Netherlands Development Organization

- SNV supports the UNDP project "Gender Empowerment for Poverty Reduction", building capacity for stronger policy practice. The project, to be started in 2006, has the medium term goal of building pro-poor and gender sensitive advocacy, planning and resource allocation skills within the Lao Government in support of decision making processes and policy formulations and planning forums. In addition, SNV supports the Gender Resource and Information Development Center (GRID) of LWU in their mandate to promote gender equality in the country.

3.2 REFORMS OF STATE OWNED ENTERPRISES AND FINANCIAL SECTOR

ADB

- ***Banking Sector Reform Program*** (US\$15m, 2002-2005). The objective of the program loan is to support the government (BOL, MOF) efforts to foster efficient intermediation of depositors' resources and ensure a sound banking sector capable of supporting private sector growth and extending rural outreach. The goals will be achieved through an improved operating environment for banking, the immediate application of commercial principles in SOCB operations, and increased diversity in forms of rural financing.
- ***Strengthening Governance in Banks Program*** (US\$4m, 2002-2005). The project intends to support the Government's to restructure and reform commercial banking, by engaging two resident international banking advisors (IBAs) for 3 years for each of the two state-owned commercial banks (SOCBs). An information technology (IT) upgrade will support these new governance structures by enabling improved financial reporting to management, shareholders, and the supervisory authority.
- ***Strengthening Corporate Governance and Management of SOCBs II*** (US\$0.9m, 2002-2006). The TA aims for a strengthened banking sector supported by a conducive legal environment and effective judicial processes. It assists the Government to strengthen shareholder oversight of bank restructuring, including (i) strategy development; (ii) human resource (HR) development; (iii) case by case NPL resolution; and (iv) the legal and judicial framework to support NPL resolution, including establishing a commercial division of the court and strengthening the framework for commercial transactions.
- ***Rural Finance Development – TA Cluster*** (\$2.02 million, 2000-2005). The objectives are to (i) strengthen the capacity of BOL to support sustainable rural financial development, (ii) assist APB to build its capacity to expand the outreach on a sustainable basis, and (iii) introduce credit unions on a pilot basis. The TA cluster will include six subprojects each of which has to be sequenced to enhance its positive impact on the subsequent subprojects to better achieve the goal of the cluster. These are (i) building awareness and understanding of rural finance, (ii) diagnostic study of APB, (iii) establishment of pilot credit unions, (iv) building BOL's capacity for training in rural finance, (v) pilot tests of the best practices in rural finance, and (vi) institutional reforms of APB.

France

- **Strengthening the Capacity Building and Training of the Ministry of Finance** – Departments of Customs and Accounting (0.6 M € - 2005-2008 and one advisor). The project aims at strengthening the capacities of the Ministry of Finance for improving its reform process (through seminars and study tours) and the on-going training of the civil servants, particularly at the Customs and Accounting Departments (training of trainers and creation of an on-going training center within the Ministry of Finance).

International Monetary Fund (IMF)

- Annual surveillance reviews (Article IV consultations) and semi-annual macroeconomic assessments (Assessment Letters).
- Technical assistance. Fiscal management (especially customs operations), central banking, and statistics.
- Training. Short-term courses for government officials on economic and financial issues in IMF Institute (Washington, DC) and regional training institutes (Singapore, Vienna).

Japan

- **Fiscal Policy and Financial Statistics Support** (Advisor and Training in Japan, US\$ 0.5m, JICA; 2005-2007). This technical cooperation provides an advisor to Fiscal Policy Department, MOF, and a series of counter-part training in Japan in order to improve financial statistics and fiscal policy of GoL.

- **Supporting the Development of Restructuring Plans for the Selected State-owned Enterprises** (US\$ 0.1m; JBIC; 2005-2006). This TA is intended to support the GoL in developing restructuring plans of the five selected SOEs (DAFI, DAI, LSFC, SLIE and CC13) and contribute to GoL's effort to achieve the policy reform agenda under PRSO 2.

Sida

- **Strengthening Fiscal Management** (US\$3.20m, 2004-2008). The overall objective is to contribute to poverty alleviation by strengthening Lao PDR's ability to improve revenue collection. The project includes: tax policy and tax administration, human resource development, organization and management and ICT development.

World Bank

- **Poverty Reduction Support Operation - PRSO** (A one-year single tranche operation, about US\$8-10m per year, 2005-2007). The main objectives of this facility are to support NGPES/NSEDP implementation and provide additional contribution to the government budget. The first PRSO of US\$10m (US\$4.5m credit and US\$5.5m grants) to GoL was approved by the Board of the World Bank (on March 31, 2005) and the second PRSO/O was approved by the WB Board in April 2006. The first PRSO3 mission took place in early October 2006 and the next mission is in early 2007. The PRSO3 is expected to go to the Board in next April 2007.

- **Financial Management Capacity Building Credit – FMCBC** (US\$8m, 2002-2008). The FMCBC aims to provide a comprehensive and strategic framework for the capacity building activities to improve the financial management in Laos and to provide a credit for specific technical assistance and training activities within such framework.

- **Financial Accountability** (IDF grant \$0.30m). This grant aims at improving Financial Accountability in SOEs and Private Enterprises. The project focuses on capacity building and introduction of international accounting and auditing standards and related training. The project also supports strengthening of LICPA and improvement of legal framework for accounting and auditing practices. Efforts are currently underway to translate international accounting standards into local language.

3.3 TRADE REFORM

ADB

- **Integrating the Poor in Regional Trade through Standard-Setting for Private Sector Development - Phase II** (US\$0.70 million, 2004-2005). The TA will work with Government to implement the national standardization framework with STEA and develop a consistent methodology and procedures on standards development across line ministries in coordination with private sector stakeholders.

- **Regional TA on Implementing the GMS Agreement on Facilitation of Cross-Border Transport of Goods and People** (Phase II, proposed amount US\$0.8m, 2006-2007): the RETA aims to assist in finalizing agreement on and implementing the GMS Cross-Border Transport Agreement (CBTA) and its annexes and protocols. The TA's particular emphasis will be on supporting the GMS countries to effectively implement the CBTA.

- **Regional TA on Support to Trade Facilitation and Capacity Building in GMS** (US\$1.5m, 2006-2008). The RETA will primarily provide initial support for the implementation of the strategic framework for action on trade facilitation. This includes building capacity of the trade facilitation focal points and the core team in performing their crucial role as "drivers" of the SFA-TFI process at the national level, by assisting them, and subsequently the SFA-TFI mechanism to undertake "gap analysis" or other required analysis in the four identified areas: customs, inspection and quarantine measures, mobility of business people, and trade logistics. The RETA will also aim to provide continuous and practical support to the GMS Trade Facilitation Working Group in the exercise of its functions and responsibilities. During implementation of the RETA, continuous coordination with other donors in support of SFA-TFI will be undertaken. The RETA complements the actions initiated through the GMS Cross Border Transport Agreement.

- **Regional TA: Support Development of the Action Plan on Trade & Investment Facilitation in GMS** (\$0.15m, 2005-?). The TA aims to assist the GMS countries in formulating an action plan on trade and investment facilitation that would strengthen competitiveness, complement trade liberalization initiatives (including AFTA, etc.), and promote GMS as an integrated production base.

Australia/AusAID

- **Support for the Role of Integrated Framework Facilitator.** (*A\$1.5 million, 2006-08*). Australia has been invited by the Lao Government to serve in the role of IF Facilitator to support Lao participation in the IF process. Australian funded the participation of an expert consultant in the Diagnostic Trade and Integration Study (DTIS) main mission to the Lao PDR (2005), and will continue to work with the GOL's IF Secretariat and Focal Point, as well as with the IF core agencies (led by the World Bank and UNDP), in progressing the IF agenda in a positive direction over the coming few years. Australian assistance includes funding for an IFF Specialist and targeted support for DTIS Action Matrix implementation.

- **Trade Analysis and Reform Project** (*A\$5m, 2005 - 2008*). Target countries: Laos, Cambodia, Thailand, Vietnam. Project interventions will focus on building analytical and research skills in order to strengthen capacity for trade policy analysis. The project has three components: 1) to improve understanding of the role of analysis in trade policy development and the capacity to incorporate analysis into the policy development cycle; 2) to strengthen the capacity of researchers in government agencies and the research community to deliver high trade policy relevant analysis; and 3) to deliver a high quality capacity building project in cost-effective and cooperative way.

- **Singapore-Australia Trilateral Cooperation Program (SATCP)** (*2004 -2007*). The program covers 8 countries in the ASEAN region. The selection of Laos as the first trilateral partner under the program reflects the commitment of both Australia and Singapore to providing quality technical assistance and capacity building for Laos officials, particularly in relation to important trade and WTO related matters and economic integration.

- **Sanitary and Phytosanitary Capacity Building Project - SPS CBP** (*A\$3.9m, 3 years (2004-06)*). The program is for support of 8 ASEAN focal countries: Philippines, Indonesia, Malaysia, Thailand, Vietnam, Cambodia, Laos and Burma. The goal of the project is to enhance the capacity of the ASEAN focal countries to meet international SPS standards and the requirements of importing countries consistent with the WTO SPS Agreement. The three components focus on SPS-Trade linkages, Plant Health and Animal Health.

European Union (EU)

Asia Invest-Open Resource for Commerce in Horticulture aided by species Identification Systems (Orchis) (*Euro 0.3m, April 2006-March 2009*)

The project aims to enhance the export capabilities of Lao PDR in the valuable flora of the country by promoting best practices in trade aided by open source based IT&C tools furthering the integration of Lao PDR in information society. The project also aims at reinforcing institutional capabilities of Lao PDR to better adhere to international commitments made in conventions like CITES.

- **Asia Trust Fund.** Building research and advisory capacity of the Economic Research Institute for Trade, Ministry of Commerce. (Euro 0.19m, April 2006 to February 2007). The project is to upgrade the research and advisory capacity of Economic Research Institute for Trade (ERIT), Ministry of Commerce in support of Lao PDR's further integration into the world economy by: (i) enhancing knowledge on international trade (ii) developing trade-related research and analytical skills necessary for in-depth analysis on international trade issues; (iii) familiarizing with international practices of commercial law reforms so as to effectively implement newly promulgated commercial laws.

- **Multrap (Multilateral Trade Assistance Project) - Support for Lao PDR's accession to WTO** (US\$1.00 m, 2004-2006). The objective is to help the Lao government prepare for WTO accession, through capacity building. The project will help government officials understand better international trade, the role and requirements of WTO, revise legal and regulatory framework and develop university level courses on international trade for officials, lawyers, traders and students.

- **EC-Lao PDR Project on Standards, Quality and Conformity Assessment** (Euro 0,5 m, 2005-2006). The overall objective of the action is to enhance the capacity of Lao PDR to integrate into regional and international trade system. The project will support the national capacity in the area of setting standards, metrology, accreditation and conformity assessments.

- **EC-ASEAN Intellectual Property Rights Co-operation Programme ALA/96/25** (Euro 0,5 million 2005-2006 National Component Lao PDR) The objective of this programme is the development of a modern intellectual property system in Lao PDR. This includes technical assistance in the drafting of new legislation on Patents, Copyrights, and Industrial Design. Particular attention will be paid on TRIPS compliance, the judiciary and the enforcement.

- **AsiaInvest - Upgrading Lao companies of the wood-processing industry for better prospects on the European Market** (Euro 0,2m 2005-2007). The project aims at enhancing production and marketing skills of Lao companies of the wood-processing industry with regard to better prospects on the European and other foreign markets. Target groups are enterprises of this sector in the regions of Vientiane, Luang Prabang and Pakse and local trainers and consultants to be trained during the project.

International Trade Center--ITC (Funded by Swiss SECO)

- **Support to Trade Promotion and Export Development in the Lao PDR** (US\$1.704m, 2004-2007). The main objective of this project is to build up the trade promotion and export development capacities of Government, trade support institutions and exporting enterprises in the Lao PDR, in close technical cooperation with Cambodia and Vietnam, so that in turn they could induce the expansion and diversification of exports. Areas of activities include: (1) Development of export strategies at the national and sectoral levels, (2) Establishment of an operational trade support network at the national level between Government, trade support institutions, product associations and exporting enterprises, led by strengthened trade promotion organizations, (3) Improvement of knowledge, strengthening of skills and development of capacities of training institutions to provide training in trade promotion and export development to exporting enterprises, (4) establishment of a trade information capacity at the national level servicing the specific needs of trade support institutions and exporting enterprises.

UNCTAD (funded by France)

- **TrainForTrade:** Training and Capacity Building in the field of International Trade, FSP 2002-95 (US\$2.3m for Lao PDR and Cambodia, 2003-2007). The main project activities include: (1) training of trainers (ToT), (2) use of distance learning, and (3) cooperation between universities of LDCs. Operational changes will be undertaken in the economic sectors identified by decision-makers and authorities of the countries involved. The project is implemented by UNCTAD together with Ministry of Commerce.

UNDP and AusAID

- **Support for Lao PDR's Integration into the International Trading System** (US\$0.64m: AusAID – US\$0.59m and UNDP – US\$0.25m. 1999-2006). The main objectives of this project are to provide technical assistance to GOL in the areas of WTO accession, improvement of economic and trade policy formulation and integration. The project has two components: (1) support for Laos accession to the WTO, including preparation of Memorandum of Accession,

establishment of a minister-level "National Steering Committee and its secretariat, identification of trade focal points in line ministries, and capacity building; (2) integration impact studies in the areas of laws and regulations, which should be changed to conform with WTO agreements, customs valuations, rules of origin, technical barriers to trade, quarantine, sanitary and phyto-sanitary measures and land transport policies.

UNDP

- **Enabling more effective Integration of Lao PDR into the ASEAN** (UNDP – US\$0.36m, 2004–2006). UNDP supports the ASEAN Department in the Ministry of Foreign Affairs in its role as Lao National ASEAN Secretariat including successfully carrying out its duties as Chair of the ASEAN for 2004-05. This includes hosting a successful ASEAN Summit facilitating the active involvement of GoL institutions in the Summit and other meetings in 2004-5. In addition, this Preparatory Assistance project is to support further integration of Lao PDR into ASEAN.

- **Strengthening capacity for National Human Development Reporting [NHDR]**: (UNDP-US\$778,050; June 2004-December 2007). The third NHDR is currently in production and explores "international trade and human development", analyzing the impacts of international trade on employment, production, poverty, income, consumption, the environment, gender and culture. A specific focus will be undertaken on the structure and composition of international trade and the impact of imports and exports on Lao human development and people's well being.

United States (USA)

- **Public Sector Governance: SEA CLIR by Booz Allen Hamilton** (US\$1m in FY 2005 and \$400k in FY 2006). This is the Southeast Asia Commercial Law and Trade Diagnostic, carried out by Booz Allen. The Laos report was recently completed. The project assesses the legal framework, implementing institutions, supporting institutions, and social dynamics surrounding key areas of commercial law and trade, including: Bankruptcy, Collateral, Commercial Dispute Resolution, Company Law, Competition Policy, Contracts, Court Administration, Financial Crimes, Flows of Goods and Services, Flows of People and Money, Foreign Direct Investment, International Trade, Real Property.

- **ASEAN Technical Assistance and Training Facility by Nathan Associates** (US\$281k in FY 2006). Nathan Associates implements the Facility to provide demand-driven policy studies, assessments, trainings, and technical assistance through seven activity "streams": Sector Integration (including textiles, information and communications technology (ICT), and healthcare), Investment, Customs and Trade Facilitation, Trade in Services, Trade Negotiations, Trade-Related Coordination and Dialogue, and Strengthened Secretariat Resources. Each activity stream responds to one or more specific ASEAN-US Enhanced Partnership objectives. Specific to Laos, the Facility will address Trade Capacity Building. Technical assistance and training in Laos supports the Vientiane Action Program (VAP) goal of narrowing the development gap between ASEAN member states.

- **ASEAN Market Analysis Capacity by ITC/WTO/UNCTA**. (US\$238k in FY 2005, 2005-2007). Under the project, WTO/UNTAD's International Trade Center (ITC) has created an ASEAN market analysis portal for users the ASEAN Secretariat and member countries. The portal includes three online tools for market analysis: (1) TradeMap, which facilitates trade flow analysis on over 5,300 products for 180 countries, (2) Market Access Map, which provides information on tariffs covering 170 importing countries and 220 exporting countries and territories, and (3) Product Map, which contains business intelligence information for 72 industry sectors. In addition to providing technical assistance and training materials, the project has plans to deliver 5 workshops to the ASEAN Secretariat and users in ASEAN member countries by its completion date of April 2007.

World Bank

- **Diagnostic Trade and Integration Study (DTIS)** to be completed in the context of the Integrated Framework (IF) exercise led by GOL/WB and other core IF agencies and IFF. The main diagnostic trade and integration study (DTIS) mission took place during February-March and a follow up mission and workshops in July and November 2005. The DTIS consultation and action matrix formulation workshops were held jointly with GOL/MOC in Vientiane, Luang Prabang and Champasack in March 2006. The DTIS report was completed by mid-2006,

followed by the pre-National Validation Workshop on September 11 and the National Workshop on 12, 2006. The dissemination workshops in provinces are tentatively planned for the end of 2006 and early 2007.

3.4 PRIVATE SECTOR, TOURISM DEVELOPMENT AND LAND REFORM

PRIVATE SECTOR DEVELOPMENT

ADB

- **Investment Climate and Productivity Study** (US\$0.15m, 2003-2006). The project conducts a study on business operating environment in the country based on sample survey of enterprises and identify effective ways to promote private investment and improve productivity. The goal of the TA is to help improve the environment for doing business and increasing productivity in the Lao PDR, thereby fostering private sector development. The TA will contribute to the country's northern region development strategy and implementation agreement on GMS cross-border movement or bilateral arrangements. It will also provide major inputs to ADB's private sector assessment.

- **Advisory Assistance on Small & Medium-Sized Enterprise and Private Sector Development** (TA: US\$0.67m, 2003-2005). The TA helps the Government develop an integrated institutional and capacity-building framework to establish the regulatory foundation for PSD and SME development.

- **Private Sector Development Program (\$0.7m, 2004-2005)**. The TA will formulate a prospective policy-based lending program to improve the business environment for private enterprises, and to achieve economic growth based on private sector development.

Germany (GTZ)

- **Human Resource Development for Market Economy** (HRDME) Program (Phase 1: USD 5.5 m, June 2004 – May 2007). Overall objective of the TA program is that Government and private sector jointly create the appropriate conditions for more dynamic economic development. It comprises three components with the following Lao partner organizations:

1. Market-economic framework conditions (CPI).
2. Integrated vocational education system related to economic and labor market development (MoE)
3. Promotion of SME development (MIH)

Japan

- **Lao-Japan Human Resource Cooperation Center (LJC) Project-Phase II** (US\$4m, JICA; 2005-2010). Cooperated with the National University of Laos (NUOL), this technical cooperation project is aiming at consistent supply of human resource for a market economy. Main courses and activities which LJC provides are (1) business management, (2) Japanese language, (3) information and cultural exchange between Laos and Japan, and (4) basic computer course.

- **Initiative to Promote Investment in Agro-industry Sector** (JBIC; 2005-2006). As a part of JBIC's follow-up activities to the Blue Book (see UNCTAD below), JBIC is planning investors' mission to Lao PDR from agro-industry, which is identified as a promising sector for future FDI. Contact mission from JBIC visited Lao PDR in February in order for fact finding before inviting investors.

- **Tourism Development in the East-West Corridor Project** (US\$2m, JICA; 2007–2010). Cooperated with Lao National Tourism Administration (LNTA) and Savannakhet Province, this technical cooperation project is to encourage tourism development thorough capacity building in order to contribute sustainability in East-West corridor.

- **ODOP Project** (US\$2m, JICA: 2007-2010). Cooperated with National Economic Research Institute (NERI), this technical cooperation project has objectives to raise awareness and importance ODOP concept, to support relevant exciting products as a pilot product, and to create good practice.

MPDF (IFC/WBG)

- **Mekong Private Sector Development Facility** (MPDF). IFC-MPDF is a multi-donor funded initiative set up by the International Finance Corporation in 1997 in Lao PDR (also in Vietnam and Cambodia) to reduce poverty through sustainable private sector development. The Facility works through six interrelated programs that seek to improve the business environment; develop the financial sector; improve managerial capacity; and increase sustainable business practices in three sectors that are central to economic growth and poverty reduction – tourism, agribusiness, and garments. One of the main activities of the Lao program is the Lao Business Forum, which provides a platform for effective dialogue and consultation between the business community and the government. IFC-MPDF acts as the Secretariat of the LBF with the role of ensuring that issues raised are appropriately identified, broadly representative, adequately researched and are presented in a constructive, solutions-oriented manner. The LBF operates on three levels: 1) private sector working group meetings, 2) meetings between working groups and the government inter-ministerial team (IMT), and 3) semi-annual Business Forums, chaired by the Deputy Prime Minister.

SNV - Netherlands Development Organization

- **Private Sector Development Program** In this program SNV aims at improving market access in order to create economic opportunities for the rural poor. The program consists of three service market combinations: 1) access to financial services, 2) value chain development (e.g. eco tourism, non timber forestry products and handicrafts) and 3) enabling environment for business development, including public – private dialogue and partnership and support to business membership organizations. Main clients are the SME Promotion and Development Office, Departments of Industry and Handicrafts, Chambers of Commerce and Industries, selected Business Associations, Lao Association of Travel Agents, the Lao Women Union and Credit Unions. Advisory services are concentrated in Luang Prabang, Khammouane, Savannakhet and Champasack provinces.

- **Non Timber Forest Products:** Advisory services in the field of non timber forest products (NTFPs) focus on developing best field practices for sustainable NTFP production and use, NTFP market development (including Marketing Information Systems), human resource development and supporting and institutionalizing networking and information exchange.

Switzerland (SDC)

- **The Promotion of Organic Farming and Marketing in Lao PDR** (US\$0.70m, 2003-2006). The project aims at promoting organic farming through creating enabling conditions for organic production, transfer of know-how to farmers, and facilitating access to domestic, regional and international markets.

- **Small-scale Agro-enterprise Development in Rural Uplands of Lao PDR** (Xieng Khuang and Luang Prabang) and Vietnam (US\$2.60m, 2003-2006).

Switzerland (seco)

- **Promotion of Cleaner Industrial Production in Lao PDR** (US\$ 0.72m, 2003-2007). The program aims to support the Government of Lao PDR in poverty eradication and environmental sustainability by improving the productivities and competitiveness of its growing industries, as well as its access to international and more local markets, through application of cleaner production techniques and technology.

- **Promoting Competition and Consumer Protection in the Mekong Region (Vietnam, Lao and Cambodia)** (USD 0.40m, 2004-2006). The Project aims at strengthening the competition culture in Vietnam, Laos and Cambodia, with a special focus on Vietnam. This will be achieved by enhancing the analysis capacity of research institutes; developing advocacy skills of the civil society; and improving training facility in the countries.

UNCTAD (funded by Japan (JBIC))

- Strengthening the investment climate: **Blue Book on Best Practices in Investment Promotion and Facilitation** (for Lao PDR and Cambodia, 2004-2006). The "Blue Book" for Lao PDR and Cambodia will contain concrete and measurable activities for the two governments in achieving best-practices in the following three broad areas: 1) Regulatory framework for investment; 2) Investment promotion strategy; 3) institutions.

UNDP –UNIDO

- **Promoting Private Sector Development through Strengthening of Lao Chambers of Commerce and Industry and Business Associations** (US\$2,33m, 2006-09) This project seeks to support the development of the private sector in Laos, in particular SMEs, by 1) optimising the use of research findings and recommendations in the areas of private sector development and business enabling environment; 2) strengthening the capacities of chambers of commerce and industry and business associations so that they can become independent, self-reliant and self-financing organizations providing effective and income generating services to the business community; 3) strengthening the capacities of chambers of commerce and industry and business associations to carry out advocacy on behalf of their members.

UNIDO

- **Lao UNIDO Integrated Program** (LAO IP/II: US\$5.6m, 2004-2008). The Integrated Program for Lao PDR (phase II) consists of the following key components:

- Industrial governance and enabling environment (\$0.9 m)
- Private Sector Development and SME promotion (\$0.9 m)
- Manufacturing productivity and environmental soundness (\$2.5 m)
- Market access, investment and trade facilitation (\$1.25 m)

World Bank

- **Investment Climate Assessment (Joint with ADB)**. The ICA is based on a survey of firms in six provinces and the capital, which was completed in October 2005. The firms were surveyed to identify the main constraints to doing business. The report will build on perception as well as on quantitative data about firms' productivity and costs of doing business. A workshop was held in Vientiane in September 2005 to discuss the preliminary results with the Government (led by DDFI/CPI). The final draft is due to come out in April 2006.

- **Assessment of Provincial Private Sector Environment (supported by EU)** takes stock of the current policy environment in 5 selected provinces for private sector development. The purpose of this assessment is to get a sense about the differences across provinces in the way existing Government policies with respect to starting a business and operating a business (investing, hiring/firing labor, importing/exporting, acquiring land etc) are practiced or implemented differently in different policies. This study is based on a review of existing rules, discussions with provincial government counterparts as well as a selected set of entrepreneurs in the provinces. Stories of around 10 successful Lao entrepreneurs are also documented to see how they have fared in an improving business environment. Also, comparisons of better performing provinces are available in the assessment. It is expected that fuller dissemination of findings in terms of small & large workshops, especially in provinces, are planned in mid-December 2005 onwards.

TOURISM

ADB

- **GMS: Mekong Tourism Development Project** (US\$10.9m, 2002-2007). The Project will promote the development of the tourism sector in the lower Mekong River basin. In Lao PDR, It will improve tourism-related infrastructure in provinces of Champasak, Khammouane, Louangnamtha, and Louangphabang, support pro-poor community-based tourism projects in the rural areas of the country, facilitating private sector participation in tourism marketing and promotion, establish mechanisms to increase subregional cooperation, and facilitate the movement of tourists across borders

Australia/AusAID

- **Child Wise: Preventing the Sexual Exploitation of Children in ASEAN Tourism Destinations through Community and Professional Education** (A\$0.6 m, 2005-06). The aim of this project is to establish Child Wise Tourism principles in the work of the National Tourism Administrations (NTAs) so that they work regionally in the prevention of child sex tourism. Participating countries include Thailand, Vietnam, Cambodia, the Philippines, Indonesia, Lao PDR, and Burma.

European Commission

- ***Asia Invest-Marketing Responsible Tourism in Laos*** (Euro 0.3m, April 2006 to March 2009) To enable the Lao Association of Travel Agents and its members to develop and increase the volume and quality of their high yield European sales and to engage more directly and constructively in sustainable tourism policy management and institutional frameworks

Japan (JBIC)

- ***Luang Prabang Tourism Sector Development Project*** (US\$0.6m, 2006). This study aims at sustainable tourism development in Luang Prabang, a major tourist destination in Lao PDR. It is expected that the study will reveal bottlenecks for sustainable tourism development, including conservation of heritage area, and prescribe how to address them.

NZAID

- ***National Tourism Authority of Lao PDR – UNESCO Nam Ha Ecotourism Project***, Phase II (US\$0.338m, 2004-2007). Phase II of the Nam Ha project intends to assist Luang Namtha's provincial tourism and protected area managers become more effective stewards of their emerging ecotourism industry. It will also scale-up the core group of national professionals trained by the Nam Ha Project both in numbers and quality.

- ***Village Assisted Mine Clearance in the Lao PDR*** (US\$0.48m, Phase 1-2, 2004-2005). This project follows a pilot in Xieng Khouang province that established the merit of active village participation in UXO clearance in Lao. The project is scaling out the use of village-assisted clearance (VAC) in clearing both heritage sites and agricultural land and plans to demonstrate the merit of UXO clearance as an integral part of development planning and implementation. An operational partnership between MAG, UNESCO, CARE and the National Tourism Authority provides the means by which new agricultural, eco-tourism, and socio-economic development initiatives will be pursued.

SNV Netherlands Development Organization

- In the field of pro-poor sustainable tourism, a team of 11 advisors is delivering advice on policy, strategy, management and product development issues to a range of clients. At the national level, these include for instance the National Tourism Administration (NTA), the National University of Laos (NUoL), and the Lao Association of Travel Agents (LATA). At the provincial level provincial tourism offices are assisted and many other relevant governmental departments, also at district level. The ultimate aim is to promote tourism that benefits livelihoods improvements to the poor.

LAND

World Bank and AusAID

- ***The Second Land Titling Project*** (US\$23.92m: WB-US\$14.82m, AusAID-US\$8.85m and GOL-US\$2.27m, 2003-2008). The second phase of LTP aims at developing the land administration capacity to support the country's economic development and poverty reduction goals. The objectives of the project are to (i) improve the security of land tenure; (ii) develop transparent and efficient land administration institutions at the national and provincial levels; and (iii) improve the government's capacity to provide social and economic services through broader revenue base from property related fees and taxes.

Germany (GTZ)

- ***Land Policy Development Project (LPDP)*** (US\$1.75m, 2005-2008). The Lao-German LPDP aims at strengthening the policy and legal framework of land management and land tenure in Lao PDR. The overall objective is to increase land tenure security for individuals, groups and public administration. This project represents the German contribution to the Lao Land Titling Phase II (see above). Under the present first phase of the project a total of 15 land policy related studies will be conducted and the step-wise drafting of a national land policy document will be supported. HRD activities and pilot titling in rural areas are other components of the project.

3.5 SEMINARS AND STUDIES BY DONORS IN REFORM AREAS

3.5.1 List of key training workshops conducted and planned for 2006 and early 2007

Topic of training/seminars	Organized by	Date	Venue
Governance			
Workshop for Lao prosecutors and legal professionals in Vientiane about the American prosecutorial system and what elements could be successfully adapted in Laos.	US Embassy	Nov 8-9, 2006	VTE
Workshop on "Civil Law" and "Commercial Law" Textbook	JICA and MOJ	Aug 2006 – May 2007	VTE & Provinces
Workshop on "Prosecutor's Manual"	JICA and Office of Supreme People's Prosecutor	May 2006 – May 2007	VTE & Provinces
Workshop on "Judgment Writing Manual"	JICA and People's Supreme Court	Oct. 2006 – May 2007	VTE & Provinces
Training on "Management of state property" for MOF	French Embassy	Mar-Apr 2005	VTE
Economic and sector Focus			
Seminar on "Macroeconomic Management and the Government Budget" for Lao parliamentarians	IMF, UNDP, EC and the Lao NA	Oct 4-6, 2006	VTE
PIP (Public Investment Program) Seminar	JICA and GOL/CPI	2006 – 2007	VTE & Provinces
Trade and Private Sector Development			
Provincial Public-Private Dialogue	GOL/CPI, GTZ	Oct 2006	LPB
DTIS National Validation Workshop. GOL and donors validated the DTIS report and action matrix.	GOL/MoIC, WB	Sep 12, 2006	VTE
<i>Customs Valuation Workshop.</i> Workshop for Lao Customs Officials as part of the "Enhanced Customs Capacity Building in ASEAN" Project under the ASEAN Australia Development Cooperation Program (AADCP)	Australia, GOL/MOF	Aug 2006	VTE
<i>ASEAN Rules of Origin Workshop.</i> Workshop related to the ASEAN-ANZ FTA negotiations and provided through the ASEAN-Australia Development Cooperation Program (AADCP)	Australia, GOL/MoIC	Jul 2006	VTE
<i>SPS Awareness in Plant Health.</i> A Workshop for middle managers and private sector in the ASEAN region, under the AusAID funded Regional SPS Capacity Building Program	Australia, GOL/MAF	Jun 2006	VTE
Trade/DTIS: Action Matrix Formulation workshops	GOL/MoC, WB	Mar 2006	VTE, LPB, CPS
First Lao Business Forum	GOL/CPI, MPDF/IFC/WBG	May 31, 2006	VTE

3.5.2 List of recently completed, ongoing/planned studies and surveys by donors on above reform areas

Topic/area of study	Conducted by	Start date	Completion date
Governance			
Access to Justice Survey	UNDP	2006	2007
Economic and Sector Focus			
The Lao Economic Monitor (issued twice a year: Spring and Autumn)	WB	2003	Ongoing
Poverty and Social Impact Assessment (PSIA)	WB and EC	2006	2007
Lao Poverty Assessment	NSC, ADB, Sida and WB.	2005	Oct-Nov 2006
Public expenditure review (PER)—2005/2006 (A joint report by WB, GOL, IMF, ADB, EU, and SIDA)	WB with GOL and other donors	2005	Nov 2006
Public expenditure tracking survey (PETS)	WB	2005	Dec 2006
Study on Aid, Economic Growth, Inequality and Poverty Reduction	NERI/UNDP	2005	2006
Rural and Agriculture Sector Issues Paper	WB	2005	2006
Khammouanne Provincial Development Study	WB/UNDP/SNV	2006	2007
Supporting Local Development: An Assessment of Community-Based Mechanisms in Lao PDR (Social Protection paper)	WB	2006	Jun 2007
Public expenditure policy in primary education and health	EC Consultant	Jan 2005	Mar 2005
PEMSP: CB assessment and program design	EC Consultant	Feb 2005	May 2005
CEM: Realising the Development Potential of Lao PDR	WB	2003	Dec 2004
Trade and Private Sector Development			
Mining sector study--Sector Plan for Sustainable Development of the Mining Sector in Lao PDR	GOL/Japan/WB	Beg-2006	End-2006
Diagnostic trade and integration study (DTIS)	GOL/IF agencies	Mar 2005	Sep 2006
Initiative to Promote Investment in Agro-industry Sector	JBIC	Feb 2006	Sep 2006
Luang Prabang Tourism Sector Development study	JBIC	Mar 2006	Sep 2006
Study on the Tax and Tax Administrative Burden on small and medium enterprises (SMEs) in Laos	WB and EC	April 2006	July 2006
Company registration and licensing in Lao PDR	MPDF/ERIT(MOC)	Jan 2006	May 2006
Microfinance training needs assessments	MPDF	Apr 2006	May 2006
Bamboo sector supply chain study	MPDF	Jan 2006	May 2006
Investment Climate Assessment (ICA)	ADB/WB/CPI	2004	Nov 2006
TA support for developing the restructuring plans for the Selected State-owned Enterprises (SOEs)	JBIC	Oct 2005	Mar 2006
Assessment of Provincial Private Sector Environment	WB	2004	Dec 2005
World Market survey	ITC/MOC	2005	Oct 2005
National Export Strategy	ITC/MOC	Dec 2004	Jun 2005
Study on Trade Support Networks	ITC/MOC	Dec 2004	Jun 2005
Study on Trade Information Services	ITC/MOC	Dec 2004	Jun 2005
Study on HD for Trade	ITC/MOC	Dec 2004	Jun 2005
Enterprise survey	GTZ	Feb 2005	Apr 2005
Reviews of the provincial policy and regulatory environment for PSD	EC Consultant	Jan 2005	Mar 2005
National Human Development Report- Trade and Human Development in Lao PDR	UNDP	2004	2005
Private Sector Assessment	ADB	2004	2005

ANNEX BOXES ON ACTIONS TAKEN IN PREVIOUS YEARS

Box 1. GOL Actions to Implement the NGPES/PRS

Measures taken in 2003

- The National Poverty Eradication Plan (NPEP) is approved by the National Assembly in October. The Plan is based on the 5th National Socio-Economic Development Plan (NSED - 2001-05) and the Interim Poverty Reduction Strategy Paper (I-PRSP)

Measures taken in 2004

- The NPEP is reviewed and upgrade to National Strategy. The final document takes the name of National Growth and Poverty Eradication Strategy, approved by the National Assembly early in the year.
- The First Millennium Development Goals Report (MDG report) is submitted to the UN Secretary General in September 2004. The MDG report sets the goals to be met by the Government by 2015, ideally, through the implementation of the NGPES.
- The first NGPES workshop of October 2004 discussed the process of costing and prioritization, including methodology and type of data needed for costing.

Measures taken in 2005

- In March, the NGPES Working Group and the Ministry of Finance met to disseminate the preliminary findings of the costing exercise.
- In July 2005, CPI organized the NGPES Second Workshop 'From Costing to Prioritization and Sequencing', in which the preliminary results of the costing exercise are presented. Three of the key priority sectors undertook a revision of their priority program costing and CPI launched the NGPES Participatory Planning project in selected NGPES priority districts.
- With close involvement from MOF and CPI, four Ministries responsible in four priorities sectors (Agriculture, Transport, Health and Education) estimated their financial needs for NGPES using the bottom-up approach. The results of NGPES costing exercise have been discussed among agencies and are expected to be integrated into the medium-term fiscal framework of NSDEP (FY 2006-2010).

Measures taken in 2006

- In January 2006 the Government shared the draft NSED with donors at a Pre-RTM. The NGPES was fully integrated into the draft NSED. The draft included results of the NSPES costing exercise. Comments were provided particular with regard the need to strengthening the elaboration of policy actions and their alignment with a realistic estimate of the available budget as well as the need for an improved monitoring system for the implementation of the NSED.
- In March the draft NSED was approved at the Party Congress.
- In June the NSED was approved by the National Assembly.

Box 2. GOL Actions to Improve Public Expenditure Management

Measures taken in 2002

- Decree No. 57/PM on the Management of Public Investment, issued on May 22, 2002. The decree requires that PIP submissions for new public projects in excess of 1 billion kip in the FY02/03 budget include estimates of associated recurrent costs during the operating period.
- FY 2000/01 outcome and FY 2001/02 budget published in April 2002 with classification by ministry, province, and services. The publication of the budget in the Official Gazette enhances budget transparency. However, the budget classification remains incomplete. The current budget nomenclature allows an economic classification and some functional accounts on an ad-hoc basis.
- The Government adopting the Accounting Implementing Regulations in July 2002 to implement Decree 20/PM on General Regulation of Public Accounting, to enhance financial accountability and transparency as well as internal financial control over revenues and expenditures to be maintained in each ministry, province, district and agency, and also provide financial statements of the Government for NA in each FY.

Measures taken in 2003

- Publication of the FY 2001/02 budget outturn and FY 2002/03 budget-plan in April 2003 in the Official Gazette, with classification by ministry, province, and sectors.
- The Procurement Monitoring Office was established & became operational within the Ministry of Finance, to oversee the implementation of better procurement processes and to assist in related capacity building activities.
- New Procurement decree 03/PM issued in December 2003 and the Implementing Regulations approved by Prime Minister in June 2004 - they improved clarity of language and specified conditions for actions. They addressed the deficiencies identified in the Country Procurement Assessment.

- A methodology for estimating the recurrent costs has been developed for core construction projects in the PIP and was applied to actual PIP projects in the training of staff from CPC and MOF around middle of 2003.

Measures taken in 2004

- The new legislative and regulatory framework for procurement were announced (a Decree no. 03/PM dated January 9, 2004) and was followed by the issuance of Implementing Rules and Regulations on March 2004 to support the new Dec03 Procurement Decree.
- The new charter of PrMO was approved. It enhanced the authority of the Procurement Management Office (PrMO) to oversee procurement issues across government agencies.

Measures Taken in 2005

- In February 2005, the government adopted a comprehensive, five-year **Public Expenditure Management Strengthening Program or PEMSP** (FY 2005-FY 2009). This program aims to strengthen public expenditure management system and the capacity of the Ministry of Finance and Provincial Finance Departments.
- **The Government Financial Information System (GFIS)** was formally put into operation on March 2005 after several years of piloting. The system will improve the budget execution and accounting (MOF Ministerial Decision 0607 dated March 10, 2005). With the new system, data on accounts payable and treasury balances are now maintained at central level and 14 provinces. However, the accuracy of data entry and coding remains an issue; and both communication links and business processes need to be strengthened to ensure better reporting between provinces and the center using GFIS.
- The decree to set up the **Rural Electrification Fund (REF)** was promulgated on August 2005. The REF will enhance access to rural electrification.
- In order to raise the **Road Maintenance Fund (RMF)** revenue to more sustainable levels, the government approved increasing fuel levy for the RMF to 150 kips/litre on November 2005.
- **The Water Supply Laws** was drafted and disseminated to donors and stakeholders at a workshop on October 2005.
- Government has taken the opportunity of the Budget Circular (Ministerial Decision 2372/MOF, November 7, 2005) to clarify the division of responsibilities for budget execution between Treasury and Budget Departments. Expenditure approvals are now to a much greater extent left to the Treasury, with the Budget Department playing a more strategic monitoring role.
- A Chart of Accounts (COA) Revision Committee has been established in MOF and an international consultant to assist the committee has been appointed and has started work. The consultant has prepared an inception report, and a process and work plan for finalizing and approving the new COA and implementation strategy.
- Following the drafting of the National Procurement Manual, including Standard Bidding Documents (SBDs) with the assistance of international consultants under PRSO1, PrMO translated the documents into Lao, completed internal stakeholder consultation on the most important and commonly used SBDs and has shared them with key external partners for feedback to facilitate harmonization.
- To oversee the proposed revision of the Budget Law, the Government has established a Budget Law Revision Committee and has initiated discussions on options for revising and clarifying revenue and expenditure assignments and central-local fiscal transfers.

Measures Taken in 2006

- Following intensive inter-departmental discussions, as well as consultation with donors and other stakeholders, the annual implementation plan and the capacity building plan for the PEMSP were approved by the PEMSP Steering Committee at its meeting on January 9, 2006. The plans translate the high-level PEMSP implementation schedule for FY2005/06 into specific program activities with outputs/milestones set for each of them.
- In addition to preparing the annual implementation and capacity building plan, the Government has appointed a long-term PEMSP Technical Adviser in the MOF; and has initiated discussions with a number of donors, including the EC, SIDA and the World Bank, regarding possible co-financing for a PEMSP multi-donor trust fund to support PEMSP-related technical assistance and capacity building.
- With close involvement from MOF and CPI, the central ministries responsible for the four priority sectors selected by the Government in its NGPES (Agriculture, Transport, Health and Education) have estimated their financial needs following a bottom-up approach. The results of this exercise have been disseminated and discussed, and will be integrated into the medium-term fiscal framework being prepared for the NSEDP 2006-10, to be presented at the National Assembly in July 2006.
- The National Assembly approved the high level budget plan during its October 2005 session and finalized detailed budget breakdowns by administrative (organizational) classification by February 2006. The MOF has since conducted analysis to "map" the budget allocations by administrative classification to allocations by NGPES/NSEDP priority sector.

Box 3. GOL Actions on SOE Reform

Measures taken in 2001

- The Business Promotion Office (BPO) - was established in the Office of Prime Minister to centralize the restructuring of SOEs, and a Minister was named to head the office;
- Governance of the largest loss-making state-owned enterprise, Bolisat Phatthana Khet Phoudoi (BPKP) was transferred from the Ministry of Defense to the Ministry of Finance, with BPO charged with the restructuring of BPKP;
- Management audits were undertaken in Lao Aviation and BPKP, leading to change in top management of Lao Aviation;
- Financial Recovery Plan (FRP) for EdL agreed with donors and its implementation was initiated;
- A new telecommunication law, passed in April 2001, laid the framework for telecom regulations, opening the sector to private participation, beginning November 2001.

Measures taken in 2002

- Decree No. 54/PM, May 2002, on Management of State-Invested Enterprises, and its Implementing regulations, Dec 2002, clarified the role and responsibilities of the Directors and managers of SOEs and their financial reporting requirements and provided guidance on capital investment in SOEs, procurement/transfer/replacement of assets, and the treatment of dividends, and; outlined sanctions for SOEs violating the regulations.
- Memoranda of Understanding (MOU) dated May 15, 2002 on the restructuring of BPKP, Lao Aviation, Nam Papa Lao, and Pharmaceutical Factory No. 3, setting out the broad parameters of the proposed restructuring, to be used as the basis for preparing detailed multi-year restructuring plans.
- Top management of BPKP and Pharmaceutical Factory No. 3 also changed to facilitate their restructuring.
- Letter of the Minister of Finance No. 618/MOF dated April 10, 2002 on new electricity tariff policy;
- White paper on water tariff policy; a draft 'Water Supply Authority (WASA) Charter' on Regulation of Water Supply Operations" is also under review. This is expected to give WASA the authority to function as the water supply sector regulator.

Measures taken in 2003

- Tariff increases for Lao Airlines, electricity, telecommunications, and water.

Measures taken in 2004

- Further increases in tariffs for water, electricity, telecommunications (especially fixed line) and aviation.
- Explicit Tariff Policies were adopted – PM Notices approving Ministry proposals – for telecommunications, water and aviation, though on the latter few details given the impending joint-venture of Lao Airlines.
- The Prime Minister's Notice No. 059/CPMO dated 15 January 2004 adopted the key elements of the detailed restructuring plans for four SOEs, including key principles of such restructuring. The subsequent four Implementing Guidelines/Instructions issued to all relevant agencies on April 29, 2004 by the Minister in the Prime Minister's office in charge of SOE restructuring set-out *detailed actions*, the institutional arrangements and agencies responsible for their implementation, transparent monitoring and evaluation procedures which include external audits and a specific timetable for 2004 and 2005.
- The State Asset Management Board (SAMB) in early 2004, completed its data-base development & the classification of all SOEs by performance. A system for collecting data & maintaining data-base for annual monitoring of SOE performance was established, based on the Implementing Regulations to the Decree on Management of State-Invested Enterprises, Decree No. 54/PM dated May 9, 2002.
- Memorandum of Understanding (MOU) for Restructuring adopted for five additional SOEs, namely, DAFI, Lao State Fuel Enterprise, Lao Export-Import Trading Company, Bridge-Road Construction Company No. 13 and Agro-industrial Development Company (DAI).

Measures taken in 2005

- The government procured external auditors to do international standard audits for 2004 financial accounts of four SOEs, i.e., Lao Airlines (LA), Nam Papa Lao (NPNL), Pharmaceutical Factory 3 (PH3), and Bolisat Pattana Khet Poudoi (BPKP). The audit planning memorandum was submitted on December 15, 2005.
- The decree on Regulation of Urban Water Supply Operations was promulgated on July 2005. The decree will provide WASA stronger legal authority to undertake regulatory activities and cover all urban water supply operators. The Regulatory Accounting Guidelines prepared by WASA, which provide the principles of regulatory accounting, currently apply for regulatory reporting in all NPSEs.
- The Action Plan for Financial Sustainability of Power Sector (or Financial Action Plan) was signed by the Ministry of Industry and Handicraft (MIH), MOF and Electricité du Lao PDR (EDL) on November 2005. The plan includes (i) gradual increases in tariffs to full cost-recovery levels by 2011, (ii) settlement of accumulated arrears of government and rescheduling of EDL's debt to Government, (iii) avoidance of future arrears by the government and (iv) improve operational efficiency to reduce EDL losses.
- The MIH issued a Tariff adjustment notice effective in August 2005 allowing tariffs to rise annually about 1% (in real terms) throughout 2005-2010. Later in November 2005, MIH endorsed the "Action Plan for

Sustainability of Power Sector" by empowering EDL to adjust tariff rates according to domestic inflation (20% weight) and exchange rate fluctuation (80% weight). EDL is currently in the process of calculating tariff adjustment indexation with inflation and exchange rate and expect to be completed within February 2006.

- The first 2 private operators' water supply concessions were awarded in Feuang District Town and Houay Mo - Thaheua (4 villages), Vang Vieng District.
- The Lao PDR Airlines increased airfares and was able to generate a gross profit of US\$ 1.3 million in the first half of 2005 after terminate the Airbus contract on March 2005.
- In July 2005, MOF submitted the names of 14 SOEs to the Prime Minister's Office to approve their restructuring given the problems they are facing.
- In December, the BPO and MOF had a joint meeting to agree the four SOEs to be restructured. The following SOEs were selected: Lane Xang Phatthana (LXP), Lat Visahakit Sanong Vatthou Technique (LVSVT), Lat Visahakit Konchak Kasikam (LVKK) and Borisath Phalithaphanh Beton Lao (BPBL). The Prime Minister's Office approved these four enterprises for restructuring in December, 2005 and the process of development of restructuring plans has been initiated.
- On November 22, 2005, MIH, MOF and EDL signed the Action Plan for Financial Sustainability of Power Sector (Financial Action Plan). This plan is intended to address the major issues impeding EDL's financial sustainability, namely the need to increase tariffs to cost-recovery levels; and the need to eliminate the stock and avoid future additions to Government's payment arrears to EDL.
- Following the Action Plan, in September 2005 MOF approved a gradual settlement of arrears due from the central Government departments and agencies to EDL in the amount of almost US\$4 million, out of which almost US\$1 million was disbursed in 2005.

Measures taken in 2006

- Subsequently, on January 1, 2006, the first monthly tranche of the planned write-off of EDL's payments due to Government against the approved arrears was executed (in an amount of US\$ 69,000) in accordance with the Action Plan.
- On January 1, 2006 EDL implemented a further increase averaging 0.7 percent, in line with the agreed Action Plan. The adjustment for local inflation and exchange rate fluctuation, which is also a part of the agreed Action Plan, was implemented on April 1, 2006 (an increase by 1.05 % up to average tariff of 552 kip/kWh).
- Draft independent external audits of financial accounts for FY04 for the four Phase 1 SOEs: Lao Airlines (LA), Nam Papa Lao, Pharmaceutical Factory 3 (PH3), and Bolisat Pattana Khet Poudoi (BPKP) have been submitted to the Business Promotion Office (BPO) for review and comment on March 27, 2006 by the auditor (Ernst & Young)
- With support from the Japan Bank for International Cooperation (JBIC), the Prime Minister's Office (PMO) has started work on developing restructuring plans for the Phase-2 SOEs. The JBIC-financed consultants completed their fieldwork in January, 2006 and have produced a final report concerning each of the five SOEs.
- SAMD submitted a report of all SOEs' performance for FY 2004 to the Ministry of Finance in January 2006. The report includes summary of annual financial data of all central and provincial SOEs and identifies the loss making and non-performing SOEs.

Box 4. GOL Actions in the Banking Sector

Measures taken in 2001

- Notice No. 90/BFSD dated March 19, 2001, requiring a commercial bank to make general provision from 0.5% to 1% of performing loans; Notice No. 209/BFSD dated June 15, 2001, reiterating that a commercial bank shall comply with Regulation No. 03/BOL, which set ceiling for lending at 60% of collateral value and for lending to a single borrower at 10% of the bank's capital, and a commercial bank shall comply with Regulation No. 98/BOL on loan classification, suspension of accrued interest income on a loan which becomes overdue for longer than 90 days, and restriction on new lending to a defaulted borrower;
- Instruction No. 176/BOL dated June 30, 2001, reiterating general reserve requirement and compliance with Regulation No. 98/BOL on loan classification; Notice No. 158/AMD dated July 3, 2001, which restricts SCBs to do policy lending and to focus on loan recovery;
- Instruction No. 195/BOL dated July 6, 2001 and letters to BCEL, LMB, LXB No. 263/BFSD dated August 6, 2001, which distinguish required provision on stock and flow (in accordance with Regulation No. 98/BOL), reiterate SCBs to stop accruing interest income on NPLs, require SCBs to submit to BFSD a report on directed lending.

Measures taken in 2002

- Instruction 01/BOL dated Jan. 10, 2002 on notional capital, credit to large customers, and level of NPLs;
- Instruction No. 03/BOL dated March 14, 2002, which restricts SCBs to grow their risk portfolio if flow NPL ratio exceeds 15% and reduce the branch approval limits. This regulation is aimed to stop further deterioration of SCBs' assets;

- Notice No. 15/CIMD dated April 24, 2002, which gives clarification of Instruction No. 03/BOL;
- Notice No. 566/MOF dated March 31, 2002 on autonomy of SCBs. The objective of this notice is to ensure that SCBs have full autonomy in operating their banks on a commercial basis;
- The Rural and Micro Finance Committee (RMFC) was established on Feb.15, 2002 under Bank of Lao PDR (BOL) to make assessment of the rural and micro-finance industry, formulate a policy statement, and develop an action plan for the implementation of a rural and micro-finance reform program;
- The External NPL Collection Committee (ECC) was established under BOL with the mandate to support debt restructuring on a voluntary basis by SCBs and debtors; Signed Memoranda of Understanding for Restructuring (MOUR) for each SCB dated March 31, 2002, stating the basic principles under which the restructuring will be conducted;

Measures taken in 2003

- Governance Agreement between Bank of the Lao PDR, Ministry of Finance, each SCB, its Board of Directors, and the management was signed in March 20, 2003. The Agreement is aimed to restructure and strengthen SCBs.
- New management team for each SCB was appointed in January 2003 and started working since end February 2003.
- Four international bank advisors (IBA) were recruited by BOL to assist in restructuring and strengthening SCBs. The first two IBAs have started working with SCBs since April 2003.
- Two SCBs, Lao May Bank and Lane Xang Bank, completed their merger into the "Lao Development Bank" (LDB) in April 2003.
- Letter No. 17 and 18/BFSD, dated February 26, 2003, Letter No. 053/BFSD, dated July 30, 2003, Letter No. 092/BFSD, dated October 23, 2003 and Letter No. 120 and 121/BFSD, dated December 5, 2003 instructing BCEL and LDB to limit their net new lending since their NPLs exceed 15%. Letter No.17 and 18/BFSD also requesting both SCBs to follow Instruction 01 and 03 closely since they exceeded the concentration limit without prior approval by BOL. These letters enforce SCBs to comply with the prudential regulation and restricted banking regime to avoid further deterioration in their portfolio.
- Notice No. 1760/PMO dated December 17, 2003 informing the MOF that the Prime Minister's Office endorsed in principle the rural and microfinance policy and action plan in December 2003. This will serve as the building blocks for developing rural financial services for the poor.
- The MOF has issued "triangle" bonds to SCBs, which are designed to resolve NPLs of private contractors caused by government arrears. Series of bond of total about 210 billion kip were issued in 2003. Interest rates on these bonds seem below market rate.

Measures taken in 2004

- Regulation No. 6/BOL replacing Regulation No. 98/BOL on loan classification, issued in May 2004, to ensure that banks consistently review and classify loans, properly account for overdue interest, adequately set aside provisioning expenses, and properly classify restructured loans. Full implementation is targeted for 2005.
- Regulation No. 5/BOL issued in September 2003 replacing Regulation No. 178/BOL on foreign currency exposure. Although issued, the regulation has not been enforced. The objective of the regulation is to assure that banks maintain their foreign currency position within the prudential limits to avoid excessive risk.
- BFSD disseminated the approved policy statement and action plan in three provinces: Borikhamxay, Champasack, and Bokeo in October, November, and December.

Measures taken in 2005

- The draft amendment to the Decree Law on Commercial Banks has been submitted to the Standing Committees of the National Assembly in February. The objective of the amendment is to ensure level of playing field and lower the barriers to entry and expansion of non-state owned banks.
- The BOL has established Financial Intelligence Unit (FIU) and issued on August 30 a regulation on Customer Due Diligence (CDD). The regulation requires commercial banks to set up a compliance office to monitor suspicious transactions.
- The BOL submitted the draft Prime Minister's Decree on Anti Money Laundering (AML) to the Prime Minister's office.
- The amendment to the Secured Transaction Law was approved by the National Assembly in May 05 and has become effective since it was signed by the President in August 05. The type of secured transaction over movable assets has been expanded from the current three, to an unrestricted position. This should give banks more opportunities to use securities (i.e. trading stock, shares, debts and intellectual property) as collateral in stead of land and fixed assets. In addition, the amendment law no longer requires approval from the chiefs of the villages to certify the registration of securities as collateral but can register collateral with the MOF. It will facilitate project financing of large scale developments, private sectors and financial institution's investment. In the event of a default, the revised provisions in respect of the realization of the security will not require the intervention of a court in the process if agreed in the credit contract and related government officials must facilitate the title transfer.
- The BOL issued on June 22, 2005 the microfinance regulation No.10/BOL to implement the Rural and Microfinance Policy and Action Plan. The regulation provides an enabling environment to support the

development of the microfinance industry and encourage an establishment of microfinance institutions in diverse forms and types of ownership. A microfinance institution (MFI) can be established with a registration status but cannot take deposits. A MFI can take deposits from general public if it is granted licenses by the BOL.

- In September 2005, the MOF approved the first tranche of recapitalization for BCEL (129 Bil.Kip) and LDB (71 Bil. Kip). This is the first part of the four tranche that MOF committed to recapitalize (The total committed amount is 634 Billion Kip) between 2005-2008.
- The draft of the 6th NSEDP which was presented to the government in January 2006 proposes to relax regulatory framework of the Lao Banking sector in order to promote a level of playing field competition.
- The BOL set up a working group to prepare a new Financial Institution Law and amendment of Presidential Decree No.01/OP and plan to submit the draft law to the National Assembly in September 2006.
- To strengthen the transparency of the SCBs, BOL finally submitted the draft 2004 independent IFRS audits for two SCBs (BCEL and LDB) to MOF in November 2005.

Measures taken in 2006

- A draft law on commercial banks was recently completed with the assistance of IFC's MPDF.
- Formal direct intervention has been reduced and the Ministry of Finance recently placed a representative on the Board of Directors of BCEL and will soon place one on the Board of LDB.
- Revised Governance Agreements were signed in August 2006.

Box 5. GOL Actions towards Trade Promotion

Measures taken in 2003

- Coverage of import and export restrictions is significant⁸. Notice 204 specifies that a license from the Minister of Commerce/provincial offices of MOC is needed to import the following:: Petrol and gas; Cars and parts for assembling vehicles of any type other than tractors⁹; Cement; Steel; Jewelry; any of 17 foodstuffs that include all meats, eggs and poultry, animal feeds, sugar, canned foods, food coloring or seasoning, soft and alcoholic drinks (including beer) and animal medicines; seeds; Videos, movies, gambling machines, satellite TV receivers and telecommunications equipment; Sporting guns.
- In January 2003, of the 1291 items on Lao's Temporary Exclusion List (TEL) under AFTA, 436 items were transferred to Inclusion List (IL) of AFTA thereby putting 71 percent of all items and 45 percent of all dutiable imports by value in the Inclusion List ¹⁰.
- On September 18, 2003 the Lao and US governments signed the first US-Lao Bilateral Trade Agreement (BTA) in Vientiane, which will go into effect after the US Congress enacts legislation authorizing normal trade relations (NTR) between the two countries.
- PM Decision No.14/PM of February 28, 2003 allowed the establishment of duty-free warehouses in Vientiane and Savannakhet (at Seno special economic zone) to facilitate the import processes.
- Supplementary Guiding Order No.530 of May 10, 2004, on business registration, has established sunset provision of two days for registration of local businesses in trade sector at one of the following three levels: central (MOC), provincial and district.
- Annex to the Supplementary Guiding Order No.530 (May 10, 2003) on business registration No. 538/MOC dated May 13, 2003 provides a division of business registration approval between different levels of government agencies: (1) MOC registers foreign companies (with registered capital from and over 200 thousands US\$), enterprises dealing with imports of vehicles and fuel and exports of wood and wood products, state enterprises and joint ventures established at central level; (2) provincial trade authorities provide registration to foreign investors (with registered capital below 200 thousands US\$), enterprises in agricultural, industrial and services sectors, trading firms, state enterprises and joint ventures established by local governments; (3) district offices can register and manage retail stores, shops and other small services.
- Decree No. 125/PM of July 24, 2003 on organization and operations of Lao National Chamber of Commerce and Industry (LNCCI) (replacing the decree No.175/PM of 20 August 1998 on areas of responsibilities of LNCCI) redefines the role, functional responsibilities, organizational structure and financial matters of LNCCI. Under this, LNCCI is an independent organization that represents the business communities and acts as a bridge linking public and private sectors and brings together continuing dialogue between the government agencies & business communities. On behalf of its members, LNCCI negotiates with GOL and foreign partners on trade, industrial and services issues and establishes its representative offices abroad. It issues the certificate of origin to exporters and approves the establishment of business groups in the country. LNCCI gets supports from its members (member fees), its own services (issuance of certificate, training and advisory services, trade exhibitions, etc.), the government as well as from individuals.

⁸ Each year through Notices to implement the general Decree No.205 of the Prime Minister issued on 11 October 2001 on this issue. Notice 203 of February 2003 defines the lists of prohibited imports and exports and these appear be relatively uncontroversial bans related to public safety and morals plus those related to logging & raw timber exports.

⁹ Licensing of vehicles is now used only mainly as a registration device as importers can import as many as they want

¹⁰ Under AFTA, Lao PDR is committed to move all the items from its Temporary Exclusion List (TEL) to the Inclusion list (IL) by the beginning of 2005 and to reduce the CEPT rates on all IL items to between zero and 5 percent by the beginning of 2008.

Measures taken in 2004

- Ministerial Guideline No.04/MOC of January 5, 2004 on *promoting commodity production*. It has defined the following goals for the next few years: (1) meet domestic demands and substitute imports (especially food, raw materials, construction materials and other consumer goods that have potential), (2) increase exports, especially to ASEAN and other neighbour countries (of agricultural and forestry products, and wood), (3) maintain market dynamics, by favouring demands and supplies to support economic growth. This guideline also provides some significant implementation measures: (1) create awareness among Lao people at all levels of the importance of the transition from a self-sufficient economy to market-oriented one, (2) improve existing regulations and procedures to encourage the production of commodities and facilitate domestic trade and exports, (3) increase roles and participation of business communities from all economic sectors in the commodity production process, (4) attract more FDI for commodity production and leverage the Lao economic potential, especially in the area of natural resources and human capital.
- In January 2004, 422 items were moved from TEL to IL bringing coverage of IL to 84% of import tariff lines.
- PM Decree No.15 of February 04, 2004 on trade competition, effective on August 1, 2004, has provided key principles to regulate monopolistic practices, and to promote fair competition and a level playing field for all players. The decree identified government agencies responsible for monitoring of competition, and defined roles & responsibilities to ensure free market & guarantee participation of various sectors.

Measures taken in 2005

- The new Customs Laws had been approved. These laws aim to implement the transaction value principle when assessing ad valorem custom duties and facilitate customs modernization as well as addressing WTO-related issues.
- To facilitate AFTA commitments, a draft resolution including a schedule of tariff reductions and the plan to move the Temporary Exclusion lists to the Inclusion lists have been proposed to the National Assembly.

Measures taken in 2006

- Consultation workshops on DTIS Action Matrix were held in March 2006 in Vientiane Capital and provinces (Laung Prabang and Savannakhet) with participation from GOL, donors (in Vientiane) and private sector.
- The work has commenced on establishment of a Multi-Donor Trust Fund for Trade-Related Assistance that will consist of EC, Australia, and possibly Swiss SECO and will be managed by WB.
- The application for the Window II funds is being prepared.

Box 6. GOL Actions to Improve Private Investment Climate**Measures taken in 2001**

- GOL took steps towards improving transparency and simplifying the investment registration processes. A number of websites (inter alia: www.invest.laopdr.org, www.moc.gov.la) have been set up to provide basic information about the country's legal framework, business and investment related laws, sector and industry information and other services.
- Decree No.46/PM March, 2001 on the Implementation of the Law on the Promotion and Management of Foreign Investment provides basic guidelines for improving registration and speeding up approval processes for foreign investment. Based on this decree, total approval time for different types of projects has been reduced from 90-180 days to 45-60 days.
- On land, PM Decree 237/PM 2001 provides more clarity in the institutional setup and main functions and activities of the Department of National Land Use Planning and Development (DONLUPAD), which is responsible for the coordination of land-related policy¹¹ and inter-agency consultations on appropriate institutional arrangements.

Measures taken in 2002

- Further to Decree No.46/PM, Decision of the Chairman of CIC, dated 27 February 2002, has decentralized approval of foreign investment projects, extension of foreign activities and establishment of branches of foreign companies in Lao PDR. It defines four size-classes of foreign investment based on value: (1) equal or less than US\$1m, (2) from above US\$1m to US\$5m, (3) from above US\$5m to US\$10m, (4) Above US\$10m. Approval of FDI equal or less than US\$1m can be done at the provincial level by all provinces. However, in large provinces, such as Vientiane Municipality, Savannakhet, Champasack and Luangprabang, the ceiling for provincial approval is US\$2m and less).

¹¹ The Land Law 01/97/NA (April 12, 1997) repeals a number of previous laws (1979, 1989, 1992) and serves as the new basis for land administration and management in Lao PDR, defining institutional responsibilities for land administration and registration (especially for eight categories of land in Lao PDR: agricultural, forest, construction, industrial, communication, cultural, water-area land and land for national defence and peace-keeping), and (2) sets out the basic rights and obligations of the land user.

PM Decree 22/PM of 1999 is on implementation of the 1997 Land Law.

Presidential Decree on Land Tax (03/PDR of August 12, 2000) provides new guidelines for land tax collection and management, with detailed tax rates for each type of land and its location.

Measures taken in 2003

- PM Decree dated 23 April 2003, on roles and responsibilities of CIC at central and local levels. The decree provides local governments with new autonomy over investment and defines organisational structure, roles and responsibilities of CIC and other relevant line-ministries and agencies at central and local levels. It serves as a strategic guidance for CIC at all levels for decision-making process including approvals, promotion, management and monitoring of domestic and foreign investment. The effective implementation of the decree would contribute to the improvement of the investment environment in the country.
- Amendment of Lao constitution, especially with regard to chapter 2 on Social and Economic System. The new text states that GOL promotes every economic sector, including domestic and foreign investment, a modern industry, enterprises and services in order to accelerate economic growth of the country. The constitution further confirms the Government intention to guarantee interest in property and lawful capital of all investors.
- Publication of Quarterly Newsletter by DDFI. The government issued in July 2003 the first Quarterly Newsletter, to disseminate FDI information to investors and to promote foreign investment. The Newsletter provides recent updates on investment regulations (mainly on decentralized management and approval process at the central and provincial levels), tips for applications, investment incentives for various priority sectors and investment zones, and data on the cost of doing business in the country (business costs – land, office space, factory building, warehouse; and production costs – labor, utilities, i.e. electricity, water, fuel/gas, and telephone).
- PM established National Land Policy Committee (NLPC) on March 25, 2003, representing a number of line ministries/agencies involved in land administration and management, and providing an effective oversight mechanism to resolve policy issues as they arise and to facilitate the development of a comprehensive land policy framework. DONLUPAD is assigned as the secretariat of NLPC.

Measures taken in 2004

- PM Decree No. 42/PO of April 20, 2004 on Promotion and Development of Small and Medium Sized Enterprises, defines key policies and an action plan for SME promotion and development, including the establishment of SME Development Funds and supporting organizations (the SME Promotion and Development Committee and its permanent Office and Executive Committee). It also defines regulations, methods and measures needed to promote SMEs, the expansion of commodity production, and trade and service activities. The policy gives priority to creating an enabling regulatory environment, enhancing competitiveness, expanding markets (domestic and international), improving access to financing and developing both entrepreneurship and an entrepreneurial culture in the country.
- The Domestic and Foreign Investment law was revised and the implementing decree for the Investment Laws will be drafted.

Measures Taken in 2005

- The revised Secured Transaction Law was approved on May 2005 and became effective on August 2005. The amendments expand and clarify eligible loan collateral.
- The business-government dialog with private sector has a good progress. CPI and MPDF signed a Memorandum of Understanding on collaboration on the Lao Business Forum. A responsible inter-ministerial committee was established by a Decision of CPI in mid-2005. The forum is conducted in two main stages. First, MPDF conducts working group meetings with the representatives of the private sector, to identify the main constraints and issues to be raised with the Government. This is followed by dialog between the private sector and the Government. CPI and MPDF are working together to prepare the topics for discussion, the forum agenda and a list of invitees, for the first Business Forum scheduled to take place on November 24.
- The National Assembly approved amendments to the 1994 Business Law, in the form of a new Enterprise Law, during the October 2005 legislative session. The new Enterprise Law creates a level playing field for private businesses, significantly simplifies regulations and procedures to start up a business, moves from discretionary licensing to more automatic registration as the main principle by having a “negative list” of sectors where entry of private business is conditional, and by creating a one-stop-shop for business registration.
- The Government has drafted a regulation to promote sustainable private investment in mining and this was adopted by the MIH in December 2005. It is intended to encourage sustainable development of private investment in mining, eliminating bottlenecks that impede development of this sector.

Measures Taken in 2006

- The first joint meeting between the government’s inter-ministerial committee and the private sector working group was held in January 2006 to discuss and agree on the key issues to be presented at the upcoming business forum. With support from MPDF, a number of working group meetings have been conducted with the representatives of the private sector from tourism, manufacturing, service and trading.
- The Lao Business Forum took place on May 31, 2006.
- The Prime Minister Order on Enterprise Law Implementation was signed in October, 2006.



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